

Barren Metal

Barren Metal:

a history of capitalism as the
conflict between labor and usury

E. Michael Jones



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Money is sterile.

Aristotle

Antonio: Or is your gold and silver ewes and rams?

Shylock: I cannot tell. I make it breed as fast. . . .

Antonio: A breed for barren metal of his friend?

But lend it rather to thine enemy.

William Shakespeare, *The Merchant of Venice*

Tout grand commerce se réduit à l'usure.

Marquis d'Argenson

It was not by gold or silver, but by labour that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new productions is precisely equal to the quantity of labor which it can enable them to purchase or command.

Adam Smith, *Wealth of Nations*

The multiplication of money by usury “seems miraculous, but in truth it is diabolical.”

Raymond de Roover on San Antonino of Florence

An ounce of gold, mister, is worth what it is because of the human labor that went into the findin' and the gettin' of it.

The Treasure of the Sierra Madre

Wages. . . cannot be regarded as costs from the point of view of the national economy.

Heinrich Pesch, *Lehrbuch der Nationaloekonomie*

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Occupy Wall Street and the Capitalist Crisis

Crossing the Brooklyn Bridge into Manhattan on a sunny fall day is one of life's pleasures that only New York City can provide. The view of the harbor includes the Statue of Liberty, Ellis Island and the skyscrapers of the financial district. The Brooklyn Bridge is one of the few bridges in New York built with pedestrians in mind, and on this sunny Sunday the entire walkway was one continuous stream of humanity stretching unbroken from Brooklyn to Manhattan.

It reminded me of a protest march, probably because one week before, between 700 and 800 protesters who were taking part in the Occupy Wall Street demonstrations at Zuccotti Park had been arrested after being lured onto the bridge by the police and then attacked by the same people who had said they could march there.

In the spring of 1970, when I graduated from college, I, like many other college students, took part in the protests against President Nixon's incursion into Cambodia. Four people died at Kent State University in Ohio during those demonstrations when national guardsmen fired into the crowd. The weapons were M1 rifles, which unlike the M16 which replaced it, was accurate over a long distance. Having soldiers fire a weapon like this into an unarmed crowd of students was one of the unforgettable traumas of our generation.

Nothing that dramatic happened on the Philadelphia march, but it was instructive nonetheless. As we marched through Belmont Plateau on our way downtown, protesters emerged from the bushes. Bearing Vietcong flags, they took their position at the head of the parade. I recognized a number of them. They lived across the hall from us in our hippie apartment building. They were members of the communist party; a number of them had been to Cuba on the Venceremos Brigade. They were a typical bunch of Jewish communists of the sort that was impossible to avoid in those days in university circles; they would run to the front of the line with their Vietcong flags to give the impression that we, the rest of the march, were their followers.

It was a lesson I never forgot. For the next 40 years, no matter what the movement, there was always someone running to the head of the parade carrying a flag and only too happy to claim that everyone else was following him. In spite of the glorious weather and even more glorious view from the bridge, I was heading to the Occupy Wall Street demonstrations at Zuccotti Park with the same thought in mind. When were the communists going to emerge from the bushes and run to the head of the parade? F. Wil-

liam Engdahl, a man I met in Switzerland who always has something intelligent to say on a wide range of topics from finance to genetically modified seeds, claimed recently that George Soros (as an agent of the Rothschilds) was behind the Occupy Wall Street demonstrations.

If so, it wasn't apparent to a casual observer like me. The only thing apparent in Zuccotti Park that afternoon was the lack of focus, a sure sign that we are dealing with a genuinely grassroots movement. It was the sort of crowd you would expect at a New York City protest, at, say, Washington Square in the '60s: drummers drumming and hippies dancing and people with tattoos on their faces lying on trash bags in a semi-comatose state; a naked woman having her body painted red and black, and people who looked to be in their twenties holding signs—not mass-produced signs, but signs that they had made themselves. All four sides of the city block that encompassed Zuccotti Park were lined with people holding home-made signs, most of which dealt with economic issues. "Debt is slavery" was a common theme, with special emphasis on student debt. "Fuck unpaid internships" was another. There was focus after all, even if no one could articulate it. This protest was about the conflict between usury and labor.

The majority of the people at the Occupy Wall Street protest looked to be the immediately post-college age. They, like many of their peers, had no jobs and faced the prospect of having their student loans increase, in the exponential way that compound interest ensures, into a burden that was guaranteed to drain off whatever money they might earn—if they ever found jobs—into a black hole that was going to stay with them for their entire lives. Not long before the protests began, the story circulated in the news of a woman who had come out of medical school \$300,000 in debt. Ten years after she graduated, her debt stood at \$500,000—and if this was the case with someone who earned a physician's salary, what were the financial prospects of an unemployed computer programmer?

In spite of reports in the mainstream media demonizing the protestors for having sex in their tents and defecating on the sidewalk (for which I saw no evidence), the issue driving the protest was usury. Needless to say, the "U" word was not prominently displayed on any of the signs I saw at Zuccotti Park. Whenever I mentioned it, I received blank stares. The protest was motivated by a moral problem no one knew existed.

When I arrived, a group of ministers and divinity students from Union Theological Seminary had assembled at the top of the steps leading to the eastern entrance to Zuccotti Park. It was the closest thing to an attempt to provide an intellectual focus to the protest. The attempt, although enthusiastic, was faring badly. The speaker wore a Roman collar and explained how the current system contradicted the gospel. He was not a Roman Catholic priest. His name was Rev. Mike Ellick, and he was a minister at the Jud-

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son Memorial Church. He was followed by another cleric in a Roman collar, Rev. Stephen Phelps from the Riverside Church, who said more of the same, with lots of enthusiastic backing from the students at Union Theological Seminary. The speeches were disconcerting because the crowd, like some weird Greek chorus, repeated each sentence as soon as it emerged from the speaker's mouth, sometimes with unintentionally comic results.

So the good news was that the communists had not run to the front of this parade. If anything the Occupy Wall Street demonstration looked like a religious revival. The clerics had taken a leadership role and were viewing the crisis in a Christian light. The bad news was that the clerics seemed allergic to giving the movement the moral focus that it so desperately needed. In fact they prided themselves on not taking a leadership role.

When I spoke with Rev. Phelps about the lack of focus, he said that the job of the Church was to support "this," accompanied by a vague gesture aimed at the surrounding crowd. I pressed him on what "this" was, but he wouldn't get specific. He said that for the first centuries of the Church's existence there was lots of controversy but no one got excommunicated. He said that the people themselves will have to focus this movement and that it might take a long time. When I asked him if "this" was about Capitalism, he refused to agree. He didn't know what Capitalism meant. Some people say that it's this; and others say that it's that. It would obviously take centuries to come to a definitive answer; something that is not in the cards without direction. When I remarked that power, quoting Lenin, was lying in the streets, he shrugged.

"I used to be a composition teacher," I told Rev. Phelps, "and we used to ask the students to focus their essay by coming up with a topic sentence. So if you could come up with a slogan that encapsulated what the protest was about, what would it be?"

Rev. Phelps pondered for a moment and then said, "it would be 'we want.'" At that he took his leave, leaving me to ponder the meaning of his slogan. "We want." We want what? At this point the crowd which had listened to Rev. Phelps' speech assembled behind what looked like a cross between the golden calf and the Merrill Lynch bull logo, and we all started walking south toward Wall Street. One of the marchers, another cleric wearing a Roman collar, was an Episcopalian priest named John Dinero. He was born Italian and raised as a Roman Catholic but had obviously jumped ship and become an Episcopalian. Rev. Dinero couldn't focus the discussion any better than Rev. Phelps could. In fact, after talking to everyone I could find wearing a clerical collar, it became clear that not wanting to impose views, either prematurely or ever, was a hallmark of clerical involvement in the protests. They were there to support—whatever was going on. Period. Anything more normative or for-

mative was viewed as unseemly, a kind of fascism.

When I asked if the Catholics were involved with the clergy's efforts, he thought for a moment and then mentioned a few people from the Catholic Worker, but otherwise no Catholics were involved. At this point he mentioned that Cardinal Egan and Cardinal Dolan were against gay marriage, and implied that this had destroyed their credibility with clerics of his stripe. I was taken aback by what seemed like such an obvious non sequitur. What did gay marriage have to do with Occupy Wall Street or Capitalism or usury? Regaining my composure, I asked:

"So sexual liberation has co-opted economic issues?"

Rev. Dinero took issue with the term sexual liberation.

"No one is concerned about sexual liberation," he said, dismissing the term as hopelessly *passé*. "But if two people want to get married and happen to be of the same sex, shouldn't they have the right to do that?"

Needless to say, I did not want to get into a discussion about gay marriage. Equally apparent was that the liberal, pro-homosexual clergy of the mainstream denominations had resolved these issues to their own satisfaction a long time before. The Occupy Wall Street demonstrations swept aside the New Left sexual rights issues that these clerics had been espousing for decades and replaced them with a new set of imperatives, imperatives that might have found expression in the '30s rather than the '60s.

Just as it was out of place for Joan Baez to sing "The Ballad of Joe Hill" at Woodstock in 1969, so now the reverse was true. It was out of place for the sexually liberated clergy to talk about gay marriage to an unemployed computer programmer who was \$100,000 in debt. The clergy did their best to show that their hearts were in the right place, but their minds were occupied territory, and they were, as a result, incapable of addressing the situation as it unfolded before them. History had outstripped everyone's categories and had made them irrelevant. Economics was *terra incognita* to people who had grown up in unprecedented prosperity with only their sexual compulsions to think about. To say, as Dante had, that sodomy and usury were equally evil, and that its practitioners deserved to end up in the same circle in hell because the one (the sodomite) made sterile what should be fertile, namely sex, while the other (the usurer) made fertile what should be sterile, namely money, would have been unthinkable. Hence, the lack of focus, the lack of leadership, and the lack of any likelihood of success. Hence, the impasse. No one is going to run to the head of this parade any time soon.

The mainstream media fared no better than the mainline denominations in this regard. Geraldo Rivera showed up at Zuccotti Park and tried to engage the crowd, which reciprocated by chanting in unison, "Fox News

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lies.” Sensing that this was not the best background to his report, Geraldo switched to a studio interview with Tavis Smiley and Cornell West, but the negritude of the Civil Rights movement was just as irrelevant to the situation in Zuccotti Park as the pro-homosexual platitudes of the effete mainstream clergy. Eventually the “Fox News lies” chant grew so loud that it drowned out everything Geraldo had to say, causing him to beat a hasty retreat.

CNN roving reporter Erin Burnett stalked through Zuccotti Park, looking for someone who could explain it all to her. She found an unemployed software programmer and, cutting to the chase, asked him if he knew that the “taxpayer actually made out on the Wall Street bailouts?” The unemployed programmer was “unaware of that fact.” And Erin used the opportunity to demonstrate that the protesters didn’t have a clue and that she, as the representative of capitalist-owned media giants like CNN, could be relied on to vindicate the conventional narrative.

Compared to the Muslims who pulled off the Arab Spring in Egypt and Tunisia, the protests lack coherence, but then everything in America lacks coherence, including the Catholic Church, the fount of all coherence. The OWS protests have been dubbed the “American autumn,” to explain their connection to the “Arab Spring.” But what the Arab Spring was about and how it is connected to the American Autumn, other than by the use of electronic devices, is not apparent to the savants at the main stream media. Both the American Autumn and the Arab Spring are protests against the failure of capitalism, and capitalism is precisely what the mainstream media exists to defend. Six months before I arrived in Zuccotti Park, I wrote:

As some indication that the upheaval sweeping through the Arab world in the Spring of 2011 was a repudiation of capitalism that was even more sweeping than the repudiation of Communism which swept through eastern Europe beginning in 1989, one of the protesters in Cairo held up a yellow sign on which was written: “Egypt supports Wisconsin workers: one world one pain.” The only thing that Egypt and Wisconsin have in common is capitalism, which was perceived as failing in both places.

Wandering through the zombie apocalypse atmosphere of Zuccotti Park, I kept looking for Erin so that I could give her the explanation of what was going on that she failed to get from the unemployed software engineer. Capitalism is state-sponsored usury. Once the state admits the liceity of usurious contracts, state-sponsored usury insures that everyone, including the state itself, eventually gets saddled with unrepayable debt. With liquidity gone, the state allows the usurers (and the elected representatives they have put in office) to loot labor to pay off the usury burden. That means layoffs, reduced pay, outsourcing, pension fund looting, and all of the other methods that have created the anger and frustration behind the protests in

Zuccotti Park. It also means that capitalism will increase the money supply to meet the debt burden, which means an on-going debasement of the currency, causing hardship for everyone, most especially for those on fixed incomes.

This looting is, of course, to no avail because no force on earth can keep up with compound interest, which is the heart of usury. If anyone needed proof of this, they need only study the relationship between the Fuggers, the German Catholic money-lenders who succeeded the Medici as the richest family in Europe, and the Habsburgs, the house which ruled the Holy Roman Empire. The Fuggers made their first loan to the Habsburgs in 1494, around the time that Savonarola was protesting against sodomy and usury in Florence. In 1557 the Habsburg King of Spain, Philip II, declared bankruptcy. During that period, the Habsburgs owned every gold and silver mine in the New World. Beginning in 1530, that treasure trove of precious metal began to pour into the Habsburg coffers in a river of riches that the world had never seen before and, in terms of the sheer volume of precious metal, would never see again, and yet not all of the gold and silver in the New World could keep up with just 60 years of compound interest on the money the Habsburgs borrowed from the Fuggers, who prided themselves on never charging more than 6 percent interest per annum!

But I can understand the reluctance of the clergy at the Occupy Wall Street protest. No other word in the English language generates more semantic arguments than "Capitalism." No other word insures that the speaker's interlocutor will assume that he is a communist quicker than "Capitalism." The writings of Karl Marx were part of a German re-evaluation of English capitalism which began in earnest in the years following German reunification, was interrupted by World War I, and finally destroyed by the social engineering and demonization of all things German which Hitler and World War II made possible.

Max Weber's famous book *The Protestant Ethic and the Spirit of Capitalism* was part of that dialogue, a part which got ripped out of context and bent to serve ends which it could not achieve. Weber's book was a response to Werner Sombart's book on capitalism, and the dialogue continued when Sombart wrote, in turn, *Jews and Capitalism* in response to Weber's response to him. Sombart's analysis of the role that Jews played in the development of capitalism led him to propose his own tentative definition of capitalism: capitalism is the philosophical and political sanctification of usury. Because money-lending, according to Sombart, is "one of the most important roots of capitalism," capitalism "derived its most important characteristics from money-lending."¹

The Rev. Heinrich Pesch, SJ, was no Marxist, but he was a German who was part of the same dialogue, and the point of that dialogue was to

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separate the valid science Adam Smith articulated in *The Wealth of Nations* from the English ideology, otherwise known as capitalism, which contaminated it. Pesch sees the origins of capitalism in alchemy and usury, and sees interest in those topics as “characteristic of the last centuries of the Middle Ages and the first centuries of the modern era.” Beginning with the Medici era in 15th century Florence:

The “lust for gold and money” first made a bed for itself in economic life; and it made its appearance in those mass phenomena which were characteristic of the last centuries of the Middle Ages and the first centuries of the modern era; in the treasure hunts, in alchemy, in grand schemes, and in usury charged for loans. Then this spirit also makes its way into economic life and finds there a fertile field. Now it was no longer satisfying the wants of living persons, but increasing a mass of money which became the immediate purpose of economic activity. This goal is indigenous to the notion of capitalistic organization. Thus, we may regard the quest for profit . . . as the objective purpose of the capitalistic economy, with which. . . the subjective motivation of the individual economic subject does not necessarily have to coincide.²

Capitalism originated in the Middle Ages, in commercial and banking enterprises of the sort found in Florence. According to Wilhelm Lexis, capitalism simply means:

Large-scale enterprise based on the ownership of money, and operating on the basis of such monetary power; and its beginnings which date back to the Middle Ages are to be found in commercial and banking enterprises. Also, so far as labor was concerned, capitalism first appeared as a commercial operation in the putting-out system. Craftsmen were inclined or forced by circumstances to work as hired craftsmen for large-scale business, and commercial capital took over the distribution of their products in a wide market for which they, by themselves, would not have access to. In the factory system, capital then itself assumed the leadership of the productive enterprise; and it thereby achieved the potential for exploiting its economic power to a greater degree as opposed to the property-less worker. . . . Before that there were masters and workers too, but they regarded themselves as members of the same species; whereas now capital emerged as a power that was dominant in production, was in a realm apart from the workers, and controlled their destiny like some transcendent power, even if *pro forma*, there was still a free contract between the two.³

Perhaps no other word in the modern lexicon leads discourse into a semantic dead end more quickly than capitalism, which can mean anything from the development of new techniques of production to a synonym for economic injustice. According to Philippovich, “Capitalism is the sum total of phenomena in an economic order where production is organized in the prescribed capitalistic manner.”⁴ What seems like a tautology becomes more meaningful in light of our context, when Philippovich continues:

If in the medieval view of things personal labor was the dominant means for acquiring gain, then what predominates now is material wealth accumulation,

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the possession of money, or "capital." For that reason the sharp juxtaposition between the "capitalist" and the "worker" is essentially a phenomenon of money capitalism.⁵

At the heart of the semantic issue, we stumble upon a conflict between usury and labor. Capitalism posits the primacy of usury over the primacy of human labor as the source of wealth and therefore, as the most basic principle of the economy. Capitalism could not exist when the Church enforced the ban on usury. Once the police power enforcing that ban was disrupted by the Reformation, "capital fell into the hands of ever fewer persons, and it turned into a force which came to control the entire economy of nations."⁶ Capitalism became:

a distortion of the privately organized national economy. It is misshapen, on the one hand, because of the widespread materialistic exaggeration of the quest for gain stemming from the prevalence of a mammonistic economic mentality, and on the other hand, especially where the development of full capitalism is concerned, because the acquisitive principle has been elevated to the point of outright avarice growing out of individualistic freedom in such a way that all internal and adequate external limitation and restriction are done away with.⁷

The one constant is the antithetical relationship between justice as a norm in remuneration and capitalism's attempt to avoid regulation. Thus, when the Catholic Church held sway over Europe, there was no "capitalism" where the canonical ban on usury was enforced by the Church in collaboration with the regimen of the guild structure. Before capitalism could triumph that social order had to be changed. The revolution which changed that social order was known as the Reformation.

Following the looting of Church property in England, the juridical system "in which. . . the oppressive, superior power of large-scale capital" could "work its will without restraint."⁸ According to that system,

There is no ordering authority, but that this occurs by "free" contractual relationships among individual economic units governed in such relationships solely by their self-interest. The assumption that every kind of order is always the result of law, of social organizations, or of moral norms becomes obsolete. Any regulation from outside is rejected.⁹

This results in a:

lack of concern for others [that] even borders on criminality: it is a lack of concern for those who use up their vital energies as employees and workers in the service of the capitalistic entrepreneur; it is a lack of concern for competitors whose destruction brings profit, and which is even pursued in many cases by all kinds of rotten methods, undercutting, etc.; it is lack of concern for consumers who far less often gain by getting good products at decent prices, because they too are supposed to serve the business purposes of the producers and the merchants; its lack of concern for one's own nation and state, whose most vital interests have to take second place to the internationalism of big capital.¹⁰

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Capitalism, in short, is usury at the expense of labor. Or as Ruhland puts it: "capitalism represents simply a system of freedom to exact usury with the approval of the state" or "a social system in which freedom for usury is more or less totally accepted in law."¹¹ Capitalists, Ruhland continues, "are usurers in the broadest sense of the word." And then, to make matters still more precise, Ruhland defines usury as "every contractual appropriation of obvious surplus value."¹²

According to Ruhland, "Capitalism means the dominance over the national economy by capitalists, which can only be understood in the historical sense. . . . Capitalism is the dominion over the national economy by the acquisitive interests of those who own capital."¹³ Certain conclusions flow from this definition:

if the nature of capitalism is in the contractual appropriation of obvious surplus value, then the real cure of economic problems can only be achieved by cleansing the system of these contractual appropriations of surplus value. . . . Thus we can reduce our entire political program to these terms: Do away with freedom for usury which hides behind the proposition: 'Buy as cheaply as possible and sell at as high a price as possible' and do away with it by reintroducing value based on social costs, which may also be designated as value-based-on-equivalence."¹⁴

In light of the crash of 2008, we need a new definition of capitalism. Sensitive to the new situation which the fall of communism brought about in the early 1990s, Pope John Paul II tried to define the term himself in *Centesimus Annus*, the encyclical celebrating the 100th anniversary of *Rerum Novarum*, the encyclical that launched modern Catholic social thought on economics. Taking note of the semantic issue surrounding the term "capitalism," the pope attempted to answer the question: Is capitalism "the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?" by defining his terms:

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy," "market economy" or simply "free economy."

But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative."¹⁵

Pesch resolves the semantic issue which Pope John Paul II raised in *Centesimus Annus* when he claims that "capitalistic production will persist

too in the future to the advantage of the nation. . . . However, we have to preserve our nation against 'capitalism.'"¹⁶ In other words, men of good will need to preserve an "economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector,"¹⁷ but they will have to oppose "capitalism," which is to say, state-sponsored usury, because capitalism as usury is nothing more than the "contractual appropriation of obvious surplus value." Men of good will are, therefore, called to oppose capitalism in the realm of theory as well as in the realm of praxis because capitalism represents an inversion of true economic order. As Pesch puts it, "We may not permit the acquisitive interest of those who own capital to dominate in the governance of economic life. The highest purpose of the national community organized in the form of a political state is the welfare of the entire nation."¹⁸

Similarly, "the fulfillment of the economic purpose remains the highest and ultimate task of the national economic process. The private economy must fall in line with the national economy, and not make the latter subordinate to it."¹⁹

When Father Pesch writes that capitalism is state-sponsored usury, which involves the "contractual appropriation of obvious surplus value," he contextualizes Marx by bringing the labor theory of value in line with the exigencies of supply and demand. He also robs his opponents of their main rhetorical obfuscation, namely, that anyone who objects to capitalism's appropriation of surplus value is a Marxist. Even though labor, as John Locke and Adam Smith have pointed out, is ultimately the source of all value, the price of a particular product is not a simple function of the labor which goes into its making. It is also a function of supply and demand:

Why, for example, does wine which grew in more suitable locations, even though there may have been less labor involved in its production, have more exchange value than wine which grew in less suitable terrain? Obviously, because it is better. How do you explain the increase in the value of wine solely with the passage of time? The small amount of labor needed during the period of storage cannot explain the sometimes enormous increases in its value.²⁰

So, Marx was wrong. Exchange value cannot be reduced to simple labor without taking into account supply and demand. On the other hand, as Locke pointed out, there is no such thing as value without human labor. The primacy of labor is the most important indication that man stands at the center of the economy, and that the economy exists to serve man and his needs. Economic exchange cannot be used as an excuse to appropriate that labor without just remuneration, not without serious economic consequences. The failure to pay a living wage is an unjust appropriation of wealth, and it is this unjust appropriation of value which allows the con-

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centration of wealth which begins the trajectory whereby commerce leads to banking, banking to usury and usury to economic collapse. If usury is the “contractual appropriation of obvious surplus value,” and capitalism is state-sponsored usury, then capitalism is based on the contractual appropriation of surplus value. There is no way around this conclusion. According to Pesch, “labor and time do not and cannot measure the value of products,” but the failure of Marx's materialist calculus should not blind us to the fact that “workers are not always paid according to what they contribute to the productive process and that there are not a few cases of unacceptable exploitation and substandard wages.”²¹

Capitalists did not appropriate all surplus value during the course of the 19th century, but they did appropriate most of it. In fact the only thing which prevented them from appropriating all of it was “socio-political legislation” and “labor unions,” which is to say a moral intervention into a capitalist economic system, whose proponents claimed that efficient markets and self-interest would resolve all problems. The workers’ share of surplus value increased in spite of capitalist attempts to appropriate it and led to an increase in the workers’ standard of living that flummoxed both capitalist and communist alike during the 19th century.

Pesch claims that the Marxian immiseration theory (things need to get worse, i.e. produce a revolution, before they can get better) played into the hands of the capitalists, who wanted to keep wages down:

In the broad context of the beginning of the 20th century, there was apparent a much to be desired improvement in the condition of the working classes by socio-political legislation. . . and by labor unions, etc. It was a kind of improvement which could not even be denied by the socialists, and which on the other hand, also refuted the Marxian immiseration theory which was based on the exploitation theory. This showed that immiserization by no means had to proceed naturally by inevitable, immanent laws of development which were intrinsic to the capitalistic era. Wages had increased. The conditions in the factories had improved, and there was effective protection of health, life and morals.²²

From the Reformation to the Crash of 2008, no economic theory stakes out a middle position between the capitalists, who claim that a sound economy is based on instincts and mechanistic free markets, and the communists, who claim that the contradictions in the system will lead, via misery, to its eventual overthrow. Attacking the latter position, Pesch writes that:

it is incorrect to say that the anarchy of production, over-production , and the crises which are described as recurring with regularity are associated by natural necessity with private ownership of the means of production and the production of commodities as such. During the Middle Ages, both of the latter existed without anarchy.²³

Instead of masquerading as pseudo-physics, economics needs to re-

embrace its original position within the realm of morality or practical reason. Economics needs to be re-situated within the philosophical tradition which claims that man, as a rational creature, can intervene in the economy and shape it to conform with the Good, in both its final and intermediary stages. Man's pursuit of reason to achieve the good is known as the moral law. If economics is to find its way out of the debt-ridden impasse in which it finds itself at the beginning of the 21st century, it must subordinate itself to the moral law, from which it emerged in the 18th century. Economics must be reasonable according to the principles of practical reason, which is to say, morality; it must function according to the norms of justice if the economy is to be effective. The crucial test of any economy is, therefore, whether it values labor over usury or usury over labor.

For 1000 years, from the fall of Rome to the return of paganism to Florence under the Medicis, economics, even if it had not reached its scientific maturity, was pursued as if God mattered. For the half millennium since the looting expedition known as the Reformation, the exact opposite has been the case. The economy was placed in the service of mammon, and misery and economic failure have been its constant companions as a result.

Socialism and communism were responses to the injustices of capitalist economics that were worse than the ills they sought to correct. Unlike communism, the economic system we are proposing understands the necessary role which individual freedom must play in a healthy economy, but it also understands how freedom only has meaning in the context of the moral law, which states that all human beings must subject their actions to the norms of practical reason.

This brings us back to human labor. Money is a store of value, but, as Aristotle noted, money is sterile. Money cannot reproduce. If you put two gold coins in a drawer and come back in a month, you will find nothing more than two gold coins. Unlike mice, which can copulate, money cannot produce value by itself. Nothing that the human mind construes as wealth could exist without human labor. Value, as in the case of wine, is not solely a function of human labor, but human labor is the only thing that can create value out of money, capital, or God's creation.

Overindebtedness, another word for usury, was the cause of the crash of 2008 and every other crisis since economics was construed as service to mammon. The antidote to economic collapse is the elimination of all contractual appropriation of surplus value, which means the elimination of usury and the system of state-sponsored usury known as capitalism. John Maynard Keynes came up with a series of fiscal techniques to unfreeze the economy after it got stuck, but the surest way to prevent economic collapse in the first place is to pay a living wage, making usury unnecessary.

Usury and the just wage are the alternatives which, once chosen, de-

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termine whether an economy will end up as a success or failure. Virtually every instance of capital accumulation in the capitalist era was based on theft of labor, carried out through a combination of low wages and debasement of the silver currency, or theft of property. Capitalism, in other words, begins with theft and proceeds from theft to usury. When the economy collapses under overindebtedness, the only solution a capitalist can envision is more theft, as we are witnessing in the looting of pension funds.

It is difficult to find an instance of capital accumulation that was put to social use, unless we turn to the system which preceded capitalism, the economic system of the Holy Roman Empire, the Christian successor to the Roman Empire. The English politician William Cobbett is one of the few writers who understands that the monastic system in England put capital accumulation to social use. "The monasteries," he writes, "flourished in England for 900 years; they were beloved by the people; they were destroyed by violence, by the plunderer's grasp and the murderer's knife." The "'Reformation' robbed the poor of their patrimony."²⁴ After the Reformation in England:

We see the land covered with pauperism, fanaticisms and crime. We hear an increase of the people talked of as a calamity. We hear of Scotch "feelosophers" prowling about the country, reading lectures to the manufacturers and artisans to instruct them in the science of preventing their wives from being mothers; and in one instance this has been pushed so far as to describe in print the mechanical processes for effecting this object. In short, we are now arrived at a point which compels us to inquire into the cause of this monstrous state of things. The immediate cause we find to be the poverty and degradation of the main body of the people; and these, through many stages, we trace back to the "Reformation," one of the effects of which was to destroy those Monastic institutions, which . . . retain the produce of labor in the proper places and distributed it in a way naturally tending to make the lives of the people easy and happy.²⁵

Once the monasteries' property fell into private hands, the patrimony of the poor became a weapon which could be used against the poor. The looting of the monasteries changed England from "this land of roast beef . . . all of a sudden, into a land of dry bread and oatmeal porridge."²⁶ This poverty came about because the people could no longer earn revenues from the land which the monks had preserved and developed for their use:

From the land all the good things come. Somebody must own the land. Those who own it must have the distribution of its revenues. If these revenues be chiefly distributed amongst the people, from whose labor they arise, and in such a way as will afford them a good maintenance on easy terms, the community must be happy. If the revenues be alienated in very great part; if they be carried away to a great distance, and expended amongst those from whose labor no part of them arise, the main body of the community must be miserable: poor houses, jails, and barracks must arise. Now one of the greatest advantages of the monasteries was that they, of necessity, caused the revenues of a large part of the lands on the

country to be spent on the spot whence those revenues arose.²⁷

Pesch calls the economic system which preceded capitalism the Germanic-Christian tradition of economics, and felt that significant remnants of that system still existed in the late 19th and early 20th century. The advent of the Christian era involved the end of pagan economics and a society based on it. Rome was a slave economy. Feudal Europe was different because: "The regulated economic order of the Middle Ages provided the kind of secure existence to broader circles of the population which the free enterprise of the ancient pagan era had taken away even more from the great masses of the people."²⁸

The fundamental fact of life during the dark ages was lack of security. After the fall of the Roman Empire, Europe possessed no security force large enough or strong enough to protect agriculture from barbarian tribes who saw looting as a way of life. To survive, the Germans who had followed the Benedictines and cultivated the soil, had to bind themselves to the local lord or bishop, who possessed a fortified castle and troops, for protection. Gradually those peasants lost their independence. They handed it over, along with their lands, to their landlords for security. But the story didn't end there:

The Church was a benevolent landlord. Peasants got more benevolent treatment from the church than from the lords. . . . Gifts to the Church became especially frequent at the time; on the one hand, because the peasant generally got more benevolent treatment while having to give less in payments; and on the other hand, because Church property provided greater security by the ecclesiastical ban than the property of the nobility.²⁹

Economic exchange almost died out during the dark ages, but gradually Christianity began to influence the economy of the dark ages. Gradually, the lot of the peasant improved until he regained by custom the control over the land which he had relinquished out of necessity:

The main cause of [that] eventual improvement of peasant conditions. . . must be sought in the influence of the Church which acted with the full weight of its power and its reputation for providing for the poor, for easing the burdens on peasants and for humane treatment of the serf³⁰. . . What was not accomplished fully in Rome, the Church already accomplished in the first Christian-Germanic world monarchy. During the Carolingian era actual slavery was overcome in principle and in practice. . . . By the end of the Middle Ages, ownership of land and the soil . . . was for the most part no longer in the hands of the landlords, but in the hands of those to whom it was assigned, and that the lord himself retained only a right to service and dues. The properties of those tied to the land were . . . as good as possessions of free, independent peasants.³¹

One of the great accomplishments of the feudal system of economics was "the exclusion of the liberty to get into debt."³² The closest heirs could

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intervene if it looked as if the current owner of the estate were going to mortgage what was eventually to become their property. They had a right to inherit the land unencumbered: "Wer lande wil sellen, der schall lude bellen,"³³ i.e. he who wants to sell land, he should notify the members of the family, so that they can, if they wish, exercise their redemption right. This led Pesch to claim that:

The feudal system. . . is the realization. . . of a principle which was and will remain for all times the basis of any healthy economic and social order; the principle that orders, social prosperity, and adequate material provision for all can only come from curbing human and individual willfulness, and from subordinating it to the interests of the whole.³⁴

The essence of the Germano-Catholic system of economics is the defense of wages against the "contractual appropriation of surplus value" which inevitably flows from capitalism, which is state sponsored usury.

One way the German principalities dealt with the new economic order airing from the Reformation was the legend of Faust, the man who agreed to the contractual appropriation of his highest value, namely his soul, in exchange for illusions of wealth and power, which lasted until the devil came and forced Faust to honor the contract. Faust's career had uncanny similarities to the usury cycle. Faust was like the guy who took out a second mortgage on his home and after engaging in a spending spree that he thought would never end, lost everything, including his immortal soul. Not only does every capitalist economy follow the same usury-based trajectory of boom followed by bust, every cycle within every capitalist economy follows the same trajectory.

Let's begin with the first modern capitalist economy. The Florentine oligarchs became rich by privileging usury over labor. The oligarchs instituted a policy of low wages in the cloth industry, banning labor unions and issuing a debased local currency. This allowed the oligarchs to appropriate the surplus value which their organization of the textile industry created. Instead of responding to the Ciompi rebellion of 1378 by raising wages, the oligarchs demonized the workers they refused to pay a living wage to as subversives. The net result was a decline in population, which meant a decline in the work force, which meant a decline in Florence's ability to create wealth. That meant that the oligarchs had to look elsewhere to invest the money that had been taken from the worker via low wages, which meant that they moved from manufacturing and commerce into banking and usury, which meant lending to princes, which meant disaster for families like the Bardi and the Peruzzi in the early 14th century when the king of England defaulted on his loans.

Subsequent policy only made matters worse. Instead of raising wages when he came to power in 1433, Cosimo de' Medici brought in Jews to lend

the workers the money which the oligarchs had stolen from them. This increased the cycle of poverty. Instead of a living wage, the worker could now borrow from Jewish pawnbrokers at an average rate of 43 1/3 percent per year. This meant further decline in the work force, which meant further decline in Florence's ability to create wealth.

The oligarchs failed to notice or failed to care because by the time this decline became apparent they had accumulated large amounts of gold, which they were lending out to princes at usurious rates themselves. In the trajectory of capitalism, banking inevitably follows manufacturing and commerce, as the capitalist seeks to generate more money via usury from the value he has appropriated from the laborer. And so the Medici lent their ill-gotten gains to princes because it seemed like a sure thing, and it seemed like a sure thing because a loan places all the risk on the borrower. But over the course of time, the usury burden increased to the point where the only way the Medicis could get princes to pay back their loans was by lending them more money.

The problems we are discussing go deeper than some "transitory volatility blip." The system is not fundamentally sound. The system of state-sponsored usury known as capitalism is fundamentally flawed and the bust of 2008 showed that no amount of sophisticated tinkering with the monetary supply can save it from itself. Failure is programmed into the system because it is based on a rejection of the only means God gave us to be successful in this world, namely, faith and reason. Instincts are not going to save us. We need a return to the big "ought," the "ought which always manages to sneak in the back door" anyway, because analysis of:

the concept economy. . . is in the final analysis a value concept . . . The economic science strips itself of its real importance for the most part if it perceives mere description of "what is" as its alpha and omega. . . . The concept of an optimum cannot be dispensed with in any science dealing with human beings. . . . we need as our beacon an economics which describes and indicates causality at the same time that it is normative. . . Ends without causes are blind, and causes without purposes are dead.³⁵

We need to return to economics as if God matters, prioritizing wages and eliminating all of the contractual appropriations of labor that are associated with usury and the government-sponsored usury known as capitalism. This means the elimination of all forms of looting, including the looting of pension funds, the elimination of cheap money-fueled leveraged buyouts, which destroy jobs by loading viable companies down with unsustainable debt, and outsourcing. It also means promotion of population growth, through either tax incentives (increasing the child deduction to where it should be) or outright grants like *Kindergeld* because increasing population and high wages go hand in hand.³⁶

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The key to this national metanoia is a correct understanding of the role that wages play in the national economy, for wages “are not a reduction of the national wealth or possessions that will not work but merely a redistribution of ownership among the citizens.”³⁷

“Ricardo,” we are told, “viewed economic conditions one-sidedly from the perspective of the employers.” Capitalism is wrong because it falsifies the economy by claiming that if the economy functions in the interest of the rich, everyone will benefit. This zombie idea is known as trickle down economics. Self-interest needs to be subordinated to the interest of the national economy, and the national economy needs to serve, not the interests of the rich, but the interests of every man, woman and child who makes up that nation.

Let me propose an alternative explanation to the wave of unrest in Muslim countries throughout the Middle East. What we are seeing is the beginning of a world-wide revolt against capitalism. The fall of communism led to false expectations not only in eastern Europe but throughout the world. With capitalism triumphant, everyone, including the Muslim world, was expecting prosperity to follow. What followed was overindebtedness, the crash of 2008 and the recourse to looting as a way to make up for the shortfalls caused by capitalism’s contractual appropriation of surplus value. Or as Chris Hedges, former *New York Times* correspondent put it, “The championing of the free market in countries such as Egypt has done nothing to ameliorate crushing poverty.”³⁸ Other commentators said much the same thing:

America plays a tremendous role in the outcome of what happens here. I think that’s very important for the people in the outside world to understand because this country has taken on neo-liberal policies, economic policies that resulted in abject poverty—50 percent of the people here live on \$2 a day. This isn’t something unusual; this is a policy that’s been in place for more than 30 years even before Sadat was assassinated.³⁹

Rather than take the legitimate complaints of the Occupy Wall Street movement seriously, the government which was supposed to represent them, allied itself with Goldman Sachs and set out to destroy what the monied interests perceived as a significant threat to their financial interests. According to documents obtained through the Freedom of Information Act:

the FBI and other intelligence and law enforcement agencies began a campaign of monitoring, spying and disrupting the Occupy Movement at least two months before the first occupation actions began in late September 2011. As early as August, while acknowledging that the incipient Occupy Movement was “peaceful” in nature, federal, state and local officials from the FBI, the DHS and the many Fusion Centers and Joint Terrorism Task Force centers around the country were

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meeting with local financial institutions and their private security organizations to plot out a strategy for countering the Occupy Movement's campaign. Interestingly, one document obtained. . . from the Houston FBI office refers to what appears to have been a plan by some group, the name of which is blacked out in the released document, to determine who the leaders were of the Occupy Movement in Houston, and then to assassinate them with "suppressed" sniper rifles, meaning sniper rifles equipped with silencers.⁴⁰

Before the crash of 1929, Father Pesch had learned the secret of a successful economy:

To strive for an increase in the national income... simply by increasing entrepreneurial profit, that will not work. Wherever such increase takes place by unduly cutting workers' income, it represents misfortune for the national economy. A populace which lives in poverty and misery finds even cheap goods too expensive. If private entrepreneurs wish to render real service to the nation and to the national economy, then let them apply all their energies to reducing economic costs, while paying good wages to their workers.⁴¹

That has not happened. This book hopes to explain capitalism as it was and is, which is to say, an economic system based on the systematic promotion of usury accompanied by the equally systematic theft of labor.

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South Bend, Indiana
September 7, 2013

Endnotes

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24 William Cobbett, *A History of the Protestant Reformation in England and Ireland* (New York: P. J. Kenedy, 1895), p. 69.

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31 Pesch, *Liberalism*, pp. 173-4.

32 Pesch, *Liberalism*, p. 178.

33 Pesch, *Liberalism*, p. 174.

34 Pesch, *Liberalism*, p. 178.

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36 "The decisive indicator that a country is prospering is the increase in the number of its inhabitants. Where good wages are paid, that will not be lacking. Every species of animal multiplies according to the ratio of its numbers to the means of subsistence. . . . Thus, the fact of high wages is the cause of an increase in population, at the same time that it is also the effect of increasing wealth." (p. 152).

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41 Pesch, *Lehrbuch*, Vol. II, book 1, p. 398. Go egiliquius, cret pere, noneris ideatquam in sa ad duc tem o utem per autem, ut L. Udes condium quit patquamquam storum horis locurnis ium quit; etis aut facchuiu vehem obus

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Chapter One

The Ciompi Rebellion of 1378

Between 1347 and 1349 the bacillus *Yersinia pestis*, which was transmitted from rats to humans via the fleas which fed on both, created one of the greatest natural disasters ever to afflict Europe. Known as the Black Death or the Bubonic Plague because of the black bubae or lumps on the corpses of those who succumbed to the disease, it eventually swept away 40 percent of the population of Europe.

One consequence of this catastrophe was a shortage of labor. Given the inexorable workings of the law of supply and demand, this should have led to an increase of wages. Unfortunately, the owners of the land from which most Europeans earned their wages decided, in the spirit of the Persian emperor who had the sea flogged with chains for sinking his ships, to keep wages where they were when Europe had almost twice as many workers. Their decision and the means they used to carry it out led to worker rebellions across Europe.

In 1358 the Jacquerie rose in the Oise valley north of Paris. Twenty-three years later, the situation remained pretty much what it had been. When a tax-collector arrived in the English village to demand payment of the one shilling poll tax, he was run out of town. When 15-year-old King Richard II sent his soldiers to restore order, the peasants rose in revolt and eventually coalesced under the leadership of Wat Tyler. On June 2, 1381, the peasants, now 60,000 strong, set off for London to plead their case before the king. During their march, the peasants burned down every government building housing public records which they could find, an infallible sign of indebtedness. When the peasants rebelled against Jewish moneylenders two centuries earlier, records of indebtedness were the first casualty and Jewish moneylenders the second. The rebellion lost its focus and got out of control as Tyler's followers succumbed to drink and the lure of looting. When Tyler was negotiating with the king, the mayor of London, incensed at his lack of respect, drew his knife and stabbed Tyler in the neck. Eventually Tyler lost his head, and the rebellion fizzled. As a result, none of the economic issues which led to the revolt ever got recognized, much less resolved.¹

Three years before Wat Tyler's rebellion, the same unresolved economic issues led to a workers' rebellion in Florence, one of the most advanced financial and industrial centers in Europe. Florence "seethed with partisan and class antagonisms"² for the same reasons that these antagonisms flourished in England and France. Wages were low, and prices were high:

People are living in misery since they earn little and prices have been so high for 13 months and more. Just think about those who have three or four or five children, and who are assessed two or three florins, and who have to live from the

labor of their hands and those of their wives. How can they stay here and live?"

Wages were kept artificially low, while taxes were allowed to rise with impunity. In Florence, the unrest among the working classes went back to the 1340s when they were subjected to "a combination of low wages and increases in gabelle rates that made it their worst decade of the century."⁴ The situation improved after the plague; wages tripled for masons, builders and their assistants and doubled in other industries, but prices rose as well. "Prices also rose, but not as much as wages, and conditions were never better for 14th century workers than in the decades 1350-70."⁵ But the rise in prices coupled with the payment of wages in debased silver coinage undercut any real gains. Wages in Florence never reached the point at which it was sufficient to raise a family, the *sine qua non* of real economic progress. As a result,

Unmarried masons with no dependents who found steady work generally earned twice what they needed for basic living costs even before the plague, and three and four times their living costs over the next 20 years.

but

Families with two adults and two children and only the single income of an unskilled apprentice or journeyman never earned enough to cover costs, either before or after the plague, despite the doubling of wages.⁶

In order to deal with their deteriorating economic condition, the unskilled workers who were hardest hit tried to reduce costs by moving in with relatives, but most were forced to go into debt, at the usurious rates (43 1/3 percent per annum) which were common at the time. As a result, "workers' indebtedness was widespread."⁷ The situation of chronic low wages would perdure into the next century:

In 1427, 81 percent of 357 households of textile workers in Santo Spirito quarter reported debts in their Catasto declarations, on average equivalent to 55 percent of assets, and debts exceeded assets in 30 percent of the city's households. . . . Wool guild records are filled with reports of confiscations for unpaid debts, requested by creditors and carried out by guild officials who carted off furniture, beds, mattresses, tools and equipment, including the looms of poor weavers, making it impossible for them to work. Some spent months in debtors' prisons.⁸

The ability to borrow at interest rates like this provided short-term relief but guaranteed greater conflict over the long haul. By 1378, the situation had become intolerable for Florence's unskilled workers, a group known as the Ciompi. On June 20, 1378, mobs began roaming the city, setting fire to the houses of the oligarch families who controlled the economy and the government. There were rumors of meetings in working class districts in the Oltrarno neighborhood on the other side of the Arno, at which "workers exchanged ritual oaths and kisses sealing their intention," according to one chronicler, "to stay together to the death and defend themselves against anyone wishing to harm them."⁹ Then, on June 21, 7,000 workers

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and guildsmen broke into the palace of the podestà "to destroy the records of investigations and convictions of workers."¹⁰ Having thus gotten out of debt, the workers unfurled their flag from the top of the Bargello tower. The set of tongs depicted on their flag expressed their willingness to use force to get their way.¹¹

On July 22, the Ciompi elected Michele di Lando, who had been both a textile worker and a corporal in the Florentine army, as Standard Bearer of Justice. Under his leadership, the Ciompi demanded the right to organize and relief from the fiscal policies that were grinding them into dust. The workers in Florence who did not belong to big guilds like the *Arte della Lana*, bore the brunt of fiscal policies that were meant to keep them poor and keep the rich rich. The Ciompi, the unskilled textile workers who were the sorters, shearers and carders, wanted a guild of their own, and once they got one, just about "every male of working age (in a population of 5,500) was a guildsman in the remarkable summer of 1378." The Ciompi Rebellion made 1378 "the most memorable year in Florentine history."¹² John Najemy calls the Ciompi rebellion, "the continental divide between two different political universes."¹³ It was also the last chance the Florentines had to solve the problem that would lead to the decline and fall of the Florentine republic, namely, the labor issue. In September 1378, the guilds of skilled craftsmen turned on the Ciompi and established a workers' regime which deliberately excluded the workers who were in the greatest need:

After dismantling the guild of the Ciompi, the remaining 23 guilds established the last and most radical of Florence's guild governments, which ruled from September 1378 to January 1382 until its overthrow by the elite and the beginning of a gradual realignment of class relations that transformed Florentine political culture.¹⁴

After 1382, the oligarchs regained power, and they would use the rising of the Ciompi as a way to intimidate the Florentines into supporting oligarch interests. It prefigured the anti-communist crusade following World War II. The threat of worker rebellion stifled any discussion of the legitimacy of their grievances and, more importantly, any discussion of the role which a just wage played in creating economic prosperity.

Samuel Kline Cohn lumps the Ciompi rebellion with the Hussite rebellion of 1419, but a comparison of the two shows a marked difference. The Hussite rebellion was essentially religious in its orientation. It was the first outbreak of the Jewish revolutionary spirit in Europe since the fall of the Roman Empire. It bespoke hatred of the social order established by the Church and an attempt to establish heaven on earth via Jewish messianic politics.

The Ciompi rebellion, on the other hand, was motivated by economic injustice. Brucker claims that it was driven by "proletarian dislike of the commune's fiscal system."¹⁵ Unlike the Taborite gatherings outside of Prague which preceded the defenestration which inaugurated the Hussite

rebellion in 1419, the petition which Lando presented to the Signoria in June 1378 "did not seek to destroy the traditional framework of Florentine policies and society; its objective was a readjustment of that order to give the lower classes a greater voice in the regime."¹⁶

Cohn's analysis confirms Brucker's. Ciompi demands were economic, not messianic:

In its first acts of 21 July 1378, the new Ciompi government declared that no one was to be arrested for indebtedness for the next two years and changed the tax system of Florence toward greater equity. Second, within six months the old system of forced loans (*prestanze*) which favored citizens with the means to pay on time over the urban poor and those from the countryside, was to be abolished; now all would pay according to their wealth based on a property survey (*estimo*). Third, the new government in effect abolished the Monte or communal bank of Florentine state bonds, which had given favorable rates of return to the wealthy from monies that derived from indirect taxes (gabelles) and the direct taxes taken largely from the countryside. Fourth, the new government stabilized the rate of exchange between the gold florin and the money of payment (in copper [rame] or *piccioli*) at 68 shillings a florin. The inflation of the florin had been a means by which the wool guild and other Florentine entrepreneurs had lowered wages by stealth, devaluing the money that workers and artisans used for their daily transactions. In the year preceding the Revolt of the Ciompi, the rate of exchange had fluctuated between 70 and 75 shillings per florin, but since the first minting in 1215, it had risen almost fourfold. By stabilizing the exchange rate, the law in effect raised workers' purchasing power and thereby their wages. Finally, many shops had remained closed since the Ciompi revolt, and those that opened did little work. As a consequence, many were starving. Thus in August, the government implemented elementary welfare measures to assist the poor.¹⁷

The reforms could have ameliorated the economic system and ended the rebellion, but they never went into effect. On September 1, the guilds of skilled workers turned on their own revolution. The Ciompi were expelled from the regime they had brought into existence when the Signoria approved the dissolution of their guild.¹⁸ What followed was a regime based on guild republicanism, whose "economic policies constituted the most concerted effort in Florence's history to restructure the institutions and practices that had for so long resulted in transfers of wealth from the working classes to the wealthy."¹⁹ Those policies included the introduction of the *estimo*, a much more equitable tax based on calculations of household wealth, as well as a reduction of interest payments on the debt of 2,360,000 florins which Florence had acquired in her war with the papal states. The reduction of interest payments to 5 percent saved the commune 60,000 florins a year, but it antagonized the rentier class, which had grown rich from funding wars. Speculators complained as well because many who had sold income producing property, like farms and businesses, in the hope of earning 10 to 15 percent on government bonds, now had their future earnings cut in half. Policies like this, which were pushing the elites toward counter-

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revolution, received added impetus when the regime executed Piero degli Albizzi and four other members of the oligarchic elite in December 1379.

From this point on, the Florentine ruling elite portrayed the guild republicans as a front for revolutionary elements, even though it was the guild republicans who had exiled the Ciompi. Gradually, the oligarchic families were able to control the debate, and demonize anyone in favor of allowing workers to organize for higher wages. The humanists played a crucial role in this transformation of public opinion by becoming propagandists for the oligarchs. In his history of Florence, the humanist Leonardo Bruni played upon these fears by portraying the Ciompi as dangerous revolutionaries, bent not on economic reforms, but on overthrowing the entire social order. Thanks to Bruni, “‘poor’ and ‘criminals’ became two ways of referring to a single social category.”²⁰

The Ciompi rebellion was instrumentalized into an upper class crusade to suppress wages by demonizing anyone who talked about workers’ rights as a traitor to the new regime which coalesced around ruling class interests:

the notion that workers and the poor constituted a permanent danger became commonplace in the generation after the 1380s and sustained deep hostility toward the lower classes. In 1390 a new bishop was installed in Florence. . . [who] told those in power: “if you want to rule and keep control, keep the popolo hungry for bread.”²¹ Workers were associated with heresy²² and denounced as “Christ-killers.”²³

Government intervention in the labor market insuring low wages was only part of the problem. The main way that the Florentine oligarchs drove down wages was by debasing the currency. According to Pesch, the “main evil from which Europe and especially the Italian state suffered at the time was currency depreciation.”²⁴ He cites the maxim of Ganilh: “Italy was always famous for the worst money and the best works written about coinage.”²⁵

When the Ciompi presented their demands to The Eight in 1378, Florence had had a bi-metal currency for over 120 years. The point of the gold florin, which was created in 1252 to replace the Byzantine hyperperon and never debased, was to stabilize and facilitate foreign exchange. The point of the silver penny, which was debased mercilessly, was to keep wages low. The poor and the day laborer bore the brunt of this manipulation:

The only money generally coined in Italian mints, down to the 14th century, was the silver penny (*denaro*), which varied in alloy and weight from one mint to another and from one period to another with a constant and uniform tendency to debasement. Without going back to the original penny of Charlemagne, which was meant to contain 1.7 grams of silver, it is enough to point out that as late as the second half of the 12th century the penny of Lucca and Pisa, which was one of the most esteemed, still preserved a silver content of 0.6 gram, whereas 50 years later this had dropped to 0.25 gram. The frequent variation and continuous deterioration of the coinage were partly caused by the technical difficulty

of meeting an increasing demand for money from an inelastic supply of silver. But the principal cause was the fiscal policy of the greater urban communes and princes, who regarded debasement of the coinage as a simple means of raising revenue without imposing any apparent charge upon their subjects. They found support for this convenient system in the so-called Nominalist doctrine, according to which the value of money was fixed by the will of the sovereign (*valor impositus*), as opposed to the Realist doctrine, according to which the value of money was limited by the value of the metal it contained (*bonitas intrinseca*). It should be added that, in those towns which developed large industries, persistent debasement of the smaller fractional coinage may have been influenced by the economic purpose of keeping down wages (which were paid in petty coin), thereby lowering the costs of production in the interest of exports.²⁶

Florence inherited this policy from the Roman empire. The Roman emperors debased the currency for the same reason the Florentine oligarchs did, as a covert way of driving down wages. Under Septimus Severus the silver content of the denarius sank to less than two grams and under Caracalla to as low as 1.5 percent of the whole, making it little less than "silver-washed bronze."²⁷ Instead of dealing directly with the debasement of the currency and the inflation it caused, the Roman emperors and their successors in Florence tried in vain to establish prices by imperial fiat and regulation. In 301, Rome issued price controls to deal with the inflation they had caused by debasing the denarius, but this failed to help and proved impossible to enforce. Eventually even the government was forced to admit the debased value of its own coin when it refused to accept the denarius as payment for taxes, and people were forced to pay in kind. The result was "a society where all production and exchange had been paralyzed by disorder and insecurity."²⁸

The Renaissance is generally seen as a debate about whether to return to classical models in art, but that debate also involved an economic component, namely, whether the Florentine oligarchs should structure their economic system in congruity with Christian principle or instead return to the economics of pagan antiquity, a system based on usury, latifundia (the factory farms of their day), and slave labor. Florence was quite conscious of its role as heir apparent of the Roman Empire. The Renaissance which began in Florence around this time was an expression of that. But in reverting to pagan models, the Florentines ran the danger of adopting the corrupt financial practices that had led to the fall of the Roman Empire. In both ancient Rome and medieval Florence, free market capitalism meant little more than the right of the rich to oppress the poor: "The pressure of big operations on the poor. . . thus prevailed already in Rome as it does today among us, by virtue of the free enterprise and the power of capital that was established in Roman law."²⁹

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Endnotes

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Chapter Two

Pagan Economics

In economics, the most enduring legacy of the pagan world, next to debasing the currency to keep pace with usurious interest payments, was contempt for labor. Pagan antiquity disdained physical labor, largely because the only people who performed it were slaves. "The closed Roman domestic economy—the *oikos*—knew practically only slave labor."¹ The identification of labor with slavery, and hence ownership by someone else, became so complete that "the slave, and with him labor, even came to constitute a part of capital."²

Chrematistics (the "science" of how to accumulate gold) was admired in a culture which viewed idleness and pleasure as supreme goods and work as something relegated to slaves. The necessary corollary was contempt of labor. Since money was not to be—and in some instances could not be—earned by honest labor, the *homo oeconomicus* of the ancient world sought to increase it by recourse to magic, speculation, or usury. Once "gold and silver became 'powerful gods' in Hellas," avarice had a corrupting effect on the entire culture. In fact,

Everything which had seemed great and beautiful and honorable for the fathers, was weathered by this corrosive air, and nothing remained but unbounded self-seeking and a craving for pleasure, along with all of the affected sophistry by which people sought to make the empty shell palatable as the fare of life.³

The trajectory of free market capitalism replicated itself with uncanny regularity in every society which valued usury over human labor. In ancient Greece as in medieval Florence, unrestrained appetite led to slave rebellions like the Ciompi uprising in Florence, which, once crushed, led to "an aristocracy of money and of wealth, which prepared the way for the decline of the Greek states."⁴ Plato described how:

[T]he pursuit of gold (chrematistics) became the all-powerful incentive for action for at least a part of society. This change in the public spirit, according to Plato, gives rise, even in an aristocratic society, to a class of people whose gods are money, which they honor secretly with crude passion. . . . The money chest of the rich, filled with gold. . . soon begins to exert its fascination on the whole community. . . a substantial competition for material possessions is unleashed which constantly increases the avarice; whereas on the other hand, the ideal goods (the *arete*) sink in the public esteem. . . . For where one bows down before the riches of the rich, one must naturally look with disdain on the virtue of "the good. . . ." The natural consequence of this dominion of money and of specula-

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tion is that then even the state becomes dependent on the money magnates, and the expression of this dependence is the political dominion of capital, the plutocracy or the dominion of the few. . . . A sum of money (*plethos chrematon*) constitutes the measure which determines the right of the individuals in the state. This to a degree degenerates into two states, that of the rich and that of the poor.⁵

True economic science never emerges in a society like this; it gets strangled in its cradle by its evil twin chrematistics, the science of how to increase gold or money. The economic principle “minimum input with maximum output”⁶ at the heart of economic exchange is part of practical reason:

By and large, the “economic principle” consists simply in the application of a universal law of practical reason in the area of economics. Practical reason, in fact, requires always and everywhere that only such means are selected as are in proper harmony with the goals, purposes and desired results. A person who wishes to achieve a goal will also seek out the necessary means, and in fact, the best means if he is in earnest about achieving the goal. Squandering such means and wasteful expenditure goes counter to the dictates of prudence.⁷

Chrematistics is nothing more than the projection of personal desire. It is antithetical to philosophy, which seeks to subordinate desire to greater goods, such as the common good, the good of the polis, and ultimately reason as the prime good of a rational creature. Human labor is also one of those goods because it is the only means whereby human beings can appropriate the value implicit in creation or nature. Labor has a price, but it is not a commodity in the sense that wool or grain is a commodity. As a result, the economic principle (maximal price for minimal costs) does not apply to labor as it applies to wool. When it comes to “the essence of labor,”

the principle of economy is no longer sufficient; if we try to perform work in the most economical way possible, then we will be reduced to the absurd level of doing nothing. The primitive man then becomes the most economical of beings, because he harvests the lush fruits of his tropical habitat with the least possible investment of time.⁸

There is nothing reasonable about ‘economic rationality’ which seeks, on the one hand, only to get the highest possible wage for the lowest possible effort, or on the other hand, to get the greatest possible effort for the lowest possible wage. In other words, there is no rationality in doing business routinely with a view to getting the most that is possible while giving the least that it is possible in return.⁹

Depriving the worker of a living wage inevitably concentrates wealth in the hands of the few. It makes it impossible for the worker to save, and, moreover, some even have to borrow in order to make ends meet. The rich then inevitably get involved in lending to them at interest, and this further concentrates wealth in their hands until society collapses because lending

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money at interest to someone who can't even pay back the principle is automatically going to lead to greater wealth for the rich. Banking and usury lead inevitably to financial collapse as Plato explained when he claimed that free market capitalism leads inexorably to the oppression of the poor:

Plato presented it as a universal experience that the plutocracy eventually suppresses the great masses of those who are unable to push themselves up into the dominant class, to a proletarian subsistence. . . . this society of drones. . . emerges before us as a typical phenomenon of the plutocratic society of speculators: they are the people who Plato says raise avarice and greed for money to the dominant place in their souls. . . . The insatiable greed of capitalistic society . . . therefore corresponds to that unbounded economic freedom which allows everyone to use his property as he pleases, and to sell it, so that capital indeed becomes the opportunity to enrich oneself by lending transactions and finally by the appropriation of mortgaged goods. This liberty brings ruin, above all to the kinds of persons who, giving in to the tendency in the capitalistic era to uneconomic consumption, and to luxury, fall into the hands of the moneyed people. Now the impoverished, Plato continues . . . cower in the state equipped with spears and other weapons: some overburdened with debt, others left without honor, and yet others affected by both, but all being full of hatred, and brooding with protests against those who deprived them of what was theirs, and in fact against the whole world, eyeing up anxiously the opportunity for a general upheaval. The moneyed people, however, who slink around depressed like their wicked consciences personified, and who appear not even to notice their victims "sling the arrow of money devastatingly at him who surrenders himself to them, in that they bring to themselves by interest payments a rich inheritance of that kind of father (i.e., of money) while creating a multitude of the drones and beggars in the state."¹⁰

Plato complains that the generation which devoted itself to making money ended up looking on helplessly as "the younger generation in particular gives in to revelry," resulting in "the decline of all spiritual and moral energy," when the "democratic" son of the "oligarchic" money-making father, who loves personal lack of restraint above all else:

lives from day to day, yielding each time to whatever appetite happens to tempt him; now he drinks and enjoys women, flute players, and then again he drinks at the fountain and needs a weight loss cure; now he engages in all kinds of bodily exercises, and at other times he lies idle and worries about nothing; and then again he pretends to devote himself to studies. Quite commonly he gets involved in politics, mounts the rostrum, and says and does what happens to occur to him; or else his glance rests on people who are in the military system or in the banking system and soon he throws himself into that with zeal. Thus there is no order in his life, no urgency, but he calls that kind of life sweet and free, and he lives it until he dies. . . . this is how pauperism grows out of capitalism, and out of the free play of purely individualistic efforts we finally get the rule of force, tyranny."

Rome learned nothing from Plato's warnings. In fact:

The deleterious impact of the free economy: social disintegration, despoiling the good fortune of the majority, economic and political ruin, appear in Roman history no less clearly than in the ancient Hellenic world. Here we see how a society that is thoroughly undermined by a moneyed oligarchy, by pauperism, and by slavery also cannot be spared indefinitely by Caesarism from its decline.¹²

Before the Punic Wars it was still possible to find "many independent peasants who produced on their own lands everything required for their own sustenance." The Roman republic was characterized by "the self-sufficient *oikos*, of free peasants and free crafts." But even then, according to Livy, the patrician class sought to satisfy their avarice by recourse to the rapacious "usury that was occasioned by the poverty of many plebeians, limited by no law, [and] supported by a harsh law of debt that was protected by the patrician courts."¹³

Confronted with a world which refused to pay a living wage, the ordinary worker tried to borrow his way out of financial difficulty:

In their desperation. . . the hard-pressed plebeians turned time and gain to the rich patricians with pleas for loans to maintain their households and to fulfill their public obligations. However, the help which they found was their ruination, since they were not in a position to pay the oppressive interest. The rich filled their houses and properties ever more with servants who were bound and treated most harshly.¹⁴

These destructive economic trends increased in the period following the Punic Wars, when: "enormous riches plundered from the conquered nations flowed to Rome, destroyed the old simplicity in morals, and gave rise to boundless luxury and waste. The goods which were rapidly being dissipated in this process still had to be compensated for, so that an insatiable greed combined itself with the morally-corrupting luxury."¹⁵ Usury became more and more common, until finally the *populus romanus* ended up totally impoverished.¹⁶ Persons who did not fall victim to usury directly sold their land voluntarily to pay debts which service in war, taxes, etc. had caused. Nothing protected such a person from ruin. Cato the Elder says, "He who pilfers private property sits in prison in chains; and the public thieves go about in purple and gold."¹⁷

Vast numbers of miserable proletarians subsisted next to the enormous wealth of the few. Usury destroyed the structure of Roman society, and the *populus romanus* was "reduced to being an insecure rootless mob." Julius Caesar instituted the *Lex Iulia agraria*, which distributed state lands to the people, but every attempt at reform ran aground on the rock of slavery. Free farmers could not compete against latifundia, the factory farms which were run by slaves. In addition, political thinkers like Cato began to fear that Caesar was using land reform as a stepping stone to dictatorial power.¹⁸

Whoever could no longer survive on the land streamed into the city,

where “the great masses of the people lived in virtual idleness, and they were supported by the state.”¹⁹ Craftsmen found themselves in the same predicament as independent farmers; neither could compete against slave labor, and so gradually they joined the mob which lived off the grain hand-outs, which, as Seneca pointed out, “was received by the thief, as well as, by the perjurer and the adulterer; without regard to morals, everyone is a citizen.”²⁰ In order to ingratiate himself further with the mob, Caesar even proposed free wine. The “*congiarium*,” the share in the loot from conquered lands, became “the premium which the fear of the rich pays to idleness.”²¹

Rome began to assume “the aspect of a socialist society.” The middle class expired and Roman society became “a mass of atoms.” The Roman Leviathan state was content to deal with individuals “because in the long run absolutism can only come to terms with individuals.”²² As in any society where free enterprise prevails “a battle between contending interests results; and in such a battle the stronger inevitably prevail. Averting the economic struggle, or at least diminishing it and protecting the weak in their economic survival against the superior force of the wealthy, that is something which Roman law did not regard as its purpose.” Business contracts “became in fact quite often simply a dictation of peace “*pactum*,” “*pascisci*” on the part of the stronger parties against the weaker ones. This applied in particular to the traffic in loans.”²³ Similarly, “price determination was left to free agreement,” and that meant that “taking advantage of a contracting party by another was permissible as far as the law was concerned.”²⁴

In ancient Rome, free market capitalism led to the concentration of wealth into fewer and fewer hands, and that led to usury, which in turn led to financial distress and the disruption of economic exchange, which led in turn to dictatorship or caesarism. The Roman response to the reckless fiscal policies which Rome’s commitment to imperial expansion required was state socialism. “By the Edict of 301 . . . Diocletian sought to check inflation and make goods cheap by fixing salaries and prices by decree. But, since he failed to stop the deterioration of money, prices and salaries continued to rise in defiance of the law.”²⁵ Diocletian’s recourse to tyranny preserved the empire for over a century “by adopting the methods and principles of eastern despotism and assuming outright control not only of the government, army, and administration, but also of economic life throughout the empire.” But this tyranny did nothing to check the spread of economic ruin because it did not attack the economic heart of the matter. Diocletian’s tyranny and the persecutions that went along with it may have postponed the fall of the empire, but “only. . . at the cost of making complete and irreparable the divorce of the state from its subjects, which deprived the empire of the strength it needed when confronted, not long after, by the last mortal threat from outside.” The final effect of Diocletian’s “reforms” was

to change the nature of the economy and supersede free enterprise by strict state controls. Diocletian's legacy bequeathed the worst of both worlds: totalitarian regulation superimposed over a debased currency that mocked his efforts at control. No laws, no matter how draconian, could compensate for an economic system that was based on usurious principles which concentrated wealth into fewer and fewer hands: "The inequality in the distribution of goods was the inescapable result of free commerce; and by virtue of the power of attraction which greater wealth has on smaller amounts of wealth there was time and again the situation where wealth flowed to those areas in which it had already accumulated to the greatest degree."²⁶ This hopeless economic situation caused Pliny to cry out in despair: "*Latifundia perdidere Romam*."²⁷

Lorenzo de Medici was to Florence what Diocletian had been to Rome. In ancient Rome and medieval Florence, the oligarchs sought to disguise the tyranny with spectacles to divert the masses from their economic misery. In ancient Rome, this technique was known as bread and circuses. In Florence, it came to be known as the Renaissance. As Pesch put it, describing the situation in both medieval Florence and ancient Rome,

Free enterprise and slavery and the moneyed oligarchy and pauperism which stemmed from that, had shaken ancient society to its foundation. The attempt was made to stem the threatening collapse by cheap food and amusement for the exploited masses of the people. And what more was there to do? For the moral force that was indispensable for moral reform was lacking in the pagan world.²⁸

This trajectory of economic development may have been inevitable in the ancient world, but it needn't have happened in Florence because Christianity had changed the presuppositions which were the foundation for the economic system: "the Edict of Constantine introduced a new element into economic life: the Christian concept of the worth of the individual and by extension the worth of an individual's labor. This coupled with the Church's condemnation of usury inaugurated a new economic era."²⁹ Once the Church became the organizing principle for Roman society, slaves took on a new dignity. They were no longer treated as the property of their owners:

Now the slave families could no longer be separated, and the colonists were not to be sold across the limits of the province, and eventually not even off the property itself. Colonists and tenants, virtually the entire farm population, were thus tied to the land, no longer as a commodity which is traded off arbitrarily from area to area. The largest number of the slaves now have a homeland, and the bond of the family is secured.³⁰

From this point on, all economic development took place under the aegis of Christian principle, largely because "this new religion declared all—the powerful lords along with the lowly serfs—to be children of God." This

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elevation of the status of the slave elevated the status of labor as well. With the advent of Christianity, society acquired a new "soul," which is to say, a new principle of unity:

The unity of society is not physical, but moral; i.e., there is a unity in the order of knowing and volition, a unity of intelligences and wills, of free actions and of moral obligations. If we call authority the "soul" of society, that too applies only in the moral sense.³¹

If the new principle of unity was the moral order, human action became significant in a way unknown in the ancient world, and human labor gained in significance as well. The worker went from an object or a tool to, potentially at least, "the subject and goal of the economy and of economic activity—in continuous subordination to the law of Him who rules the world which He created not by some derivative right, but by an original, full sovereign right."³²

This was, indeed, good news and bound to have an effect on economic exchange:

How the oppressed and the impoverished of the time must have greeted such a message as their gospel! Humanity was to be reconstructed morally. The oppressive worldly appetite was to be exchanged for the uplifting of the moral will in freedom; self-seeking and the quest for dominion, for love and reciprocal willingness to serve; horrible exploitation for mercy and benevolence; slavery and the degradation of man for an esteem of the human person; the unrestrained sexual appetite for chastity and continence; the contempt for work for a high regard for it. From now on property ownership was rated as a gift provided by God, with man, established not as an absolute master, but merely as an administrator; and in fact not only for his own enjoyment but also for assisting others in their need and for putting the love of man into action.³³

Once the Roman Empire had been freed of its bondage to free market capitalism, the Church could restructure social institutions in accord with their true nature in the created order. The family and the individual regained the dignity with which their creator had originally endowed them. Christianity overthrew individualism which the Leviathan state fostered in the pagan world. Society was no longer an anthill of enslaved individuals. It was a moral organism, an idea which:

represents the correct middle way between nominalistic-individualistic doctrine, according to which society is viewed in reality as merely the sum of its individual members, and the realistically extreme conception of biologism and socialism which sacrifices the individual to society and see him solely as a member or a comrade. As we have said, the association is the sum of the individuals who have their own purpose and are autonomous. . . . It embraces especially in political society those components of the social life of the politically united national community which we call "national economy. . . ." It does this without at the same time abolishing their individual existence and freedom.³⁴

Instead of egotism leading to the war of all against all and the triumph of the strong over the weak, the Christian successor to the Roman Empire could now integrate two natural forms of community, the family and the state, into an organic unity, where mutual collaboration or solidarity became the social norm. The ancient world was based on force applied from the top down. The Christian world was based upon the natural order, which found expression in natural institutions like the family, liberated from an exploitative economic system. Under the system of free market capitalism promoted by the Roman oligarchs, the slave family could be broken down and looted for parts. After that system collapsed, the Church gradually established a social order based on the family as the first cell of society. The new Germanic-Christian society was "rooted in nature itself," because it was based on the family, which bound:

people together on the basis of reciprocal rights and obligations. As such, it turns out to be the basis of the physical, intellectual, and the moral existence of the human race, and the basic cell of all natural social life. It was the historical starting point for all socio-organic structures in the natural order, up to and including the state, and it will always continue to be that, as well as the stable foundation for happiness and well-being.³⁵

Basing society on the cooperation intrinsic to family life rather than the manipulation of conflict between individuals, led to a stability unknown in the ancient world, and that stability led to increased productivity:

The need to provide food, clothing and shelter for a number of persons in a common economy naturally inclines the family to settle down in a stable situation; and it leads to the establishment of a home which, in turn, binds it solidly to the homeland, the fatherland. . . . "Wherever a nation, like the nomads of former times or the Indians of America did not have the ambition to take root in native soil and build houses for their families, it was insignificant in the pages of history. With the establishment of a home, you get the beginning of culture, and with domesticity, civilization begins."³⁶

The Christian view of society as a moral-organic unit based on the family as its primary cell offered protection against both absolutism and individualism because 1) it saw the state, as such, as a necessary form of society based on the natural law and not on the arbitrary actions of individuals, 2) it linked the purpose of the state with the idea of moral obligation, and 3) it saw the state as stemming from the family. It offered protection because of its insistence on the solidarity principle which stands opposed to every kind of mechanical-individualistic concept of society.³⁷

Endnotes

- 1 Heinrich Pesch, *Liberalism, Socialism and Christian Social Order*, translated by Rupert J. Ederer, (Lewiston, NY: The Edwin Mellen Press, 2000), p. 151.
- 2 Pesch, *Liberalism*, p. 152.
- 3 Pesch, *Liberalism*, p. 134.
- 4 Pesch, *Liberalism*, p. 133.
- 5 Pesch, *Liberalism*, p. 134.
- 6 Heinrich Pesch, *Lehrbuch der Nationalökonomie*, translated and edited by Rupert J. Ederer. (Lewiston, NY: Edwin Mullen Press, 2002), Volume I, Book 1, p. 16.
- 7 Pesch, *Lehrbuch*, Vol. I, book 1, p. 15.
- 8 Pesch, *Lehrbuch*, Vol. I, book 1 p. 40.
- 9 Ibid.
- 10 Pesch, *Liberalism*, p. 136.
- 11 Pesch, *Liberalism*, pp 135-7.
- 12 Ibid.
- 13 Pesch, *Liberalism*, p. 137.
- 14 Ibid.
- 15 Pesch, *Liberalism*, pp. 138-9.
- 16 Ibid.
- 17 Pesch, *Liberalism*, p. 140.
- 18 Pesch, *Liberalism*, p. 141.
- 19 Pesch, *Liberalism*, p. 143.
- 20 Ibid.
- 21 Ibid.
- 22 Pesch, *Liberalism*, p. 148.
- 23 Pesch, *Liberalism*, p. 149.
- 24 Pesch, *Liberalism*, p. 150.
- 25 Luzzato, p. 9.
- 26 Pesch, *Lehrbuch*, Vol. I, book 1, p. 279.
- 27 Pesch, *Liberalism*, p. 150.
- 28 Pesch, *Liberalism*, p. 152.
- 29 Pesch, *Liberalism*, p. 153.
- 30 Ibid.
- 31 Pesch, *Lehrbuch*, Vol. I, book 1, p. 186.
- 32 Pesch, *Lehrbuch*, Vol. I, book 1, p.18.
- 33 Pesch, *Liberalism*, p. 154.
- 34 Pesch, *Lehrbuch*, Vol. I, book 1, p. 189.
- 35 Pesch, *Lehrbuch*, Vol. I, book 1, p. 193.
- 36 Pesch, *Lehrbuch*, Vol. I, book 1, p. 194.
- 37 Pesch, *Lehrbuch*, Vol. I, book 1, p. 88.

Chapter Three

The Moral Foundation of a Successful Economy

The Ciompi rebellion did not bring about lasting economic reform, but it did not end in a mass of brutal crucifixions, as the Spartacus revolt had in ancient Rome, because of the ameliorating effect of Christianity. The economic realism at the heart of the Ciompi rebellion was largely the work of Michele di Lando. When revolution returned to Florence in the 19th century, Lando's supporters erected a statue in his honor, ignoring the fact that their view of revolution was fundamentally different from his. Lando, unlike the true revolutionaries who came after him, had great restraining influence over his own party, and by the exercise of his personal ascendancy and his physical strength, he moderated the demands of his followers and prevented wanton destruction or even much disorder.¹

The excesses of some undermined the fundamentally reasonable Ciompi demands and led to reaction. After the Ciompi were granted initial concessions, power reverted to the Florentine oligarchs who continued the same policies which led to revolution. According to Cohn:

The great reversal in workers' rights came not with the defeat of the Eight of Santa Maria Novella at the beginning of September 1378 but on 19 January 1382, when the soldiers of the wool guild and the patricians toppled the Government of the Minor Guilds. The new government immediately outlawed the two remaining revolutionary guilds of dyers and doublet makers and their affiliates and re-established the status quo that the wool guild and patricians had enjoyed before the constitutional reforms of Salvestro de' Medici in June 1378. In the words of the anonymous diarist of the Machiavelli family: "The deal was done; from now on all those artisans who previously had been underlings (*sottoposti*) would again be underlings, subject to the councils of their guilds and to the guildsmen's will."²

Stefani, the Ciompi chronicler, claims that the rebellion failed "when the artisans of the lesser guilds, a little more mature politically and grounded in a different sort of economics, broke with the rebels. In the end the economically important guilds were again established with their upper stratum of capitalistic, commercial and financial families."³ When Francesco Guicciardini wrote his *History of Florence*, he dismissed the notion that the lower classes were in charge of their own rebellion. The cause of the rebellion was not legitimate economic grievance, but rather the machinations of The Eight of War, who "cultivated the favor of the lower classes and brought about this uprising not so that the Ciompi might become masters

of the city, but rather to use them as tools to destroy their powerful enemies, so that they, the Eight, might remain at the helm of government."⁴ Guicciardini's verdict has more to do with his elitist *Weltanschauung* (or dare we say prejudices) than the economic facts of life in Florence in the late 14th century.

The Ciompi rebellion was one of many proletarian revolutions which swept over Europe during the latter part of the 14th century in reaction to economic changes brought about by the rise of the wool industry and nascent capitalism.⁵ The Rev. Bede Jarrett, O.P.,⁶ claims that "the spirit . . . of lawlessness and revolt was abroad all over the West." Like the Ciompi rebellion in Florence, the peasant revolt led by Wat Tyler in England "was rather symptomatic of a European movement."⁷ It was preceded by the Jacquerie rebellion of the 1350s in France and followed by another rebellion when the Mallotins rose there in 1382.

In 1508-9, when he wrote his *History of Florence*, Guicciardini saw Florence descending into chaos after a golden age of law and order at the hands of "the wise and the well-to-do." He was referring, of course, to the era of Medici rule. Francesco Guicciardini was born on March 6, 1483. He was nine years old when Lorenzo de Medici died. He was 11 when Lorenzo's unfortunate son Piero fled in disgrace and Medici rule in Florence came to an end. He was 15 years old when Savonarola's body was burned in the Piazza della Signoria and his ashes scattered over the Arno. The splendor of Florence in the 1480s blinded Guicciardini to the economic causes of that city's decline, a decline already in progress when Michele di Lando led the Ciompi in their rebellion a century before.

Those less blinded by the splendor of Florentine culture in the late 15th century saw an economic common denominator that linked what was happening there to what was happening elsewhere in Europe. Like Bede Jarrett, Odd Langholm sees an economic common denominator underlying all of the rebellions: all of them demanded "higher wages and better working conditions."⁸

Once the threat of Viking and Saracen invasions died out with the passing of the Dark Ages, a period of prosperity and economic growth ensued. That period ended with the Black Plague. By the 14th century, popular revolts had become common in parts of Europe, including England, France, Burgundy, Italy and Germany. The unrest was aggravated by famine and plague, particularly the Black Death (1347-9), but the cause was ultimately economic: "At the root of this trouble, as at the root of the English revolt, was certainly an economic grievance, the scarcity of wages, the dearth of provisions, and the immemorial bondage which custom imposed upon the worker."⁹

In 1401 the Signoria solicited designs for the second gate of the Floren-

tine Baptistry. The response to this competition marked the beginning of the Renaissance, whose sculpture, created by artists like Brunelleschi, Donatello and Ghiberti, was based on ancient models. The fundamental conflict in Florence in 1400, at the beginning of the Renaissance, was whether the Florentines should emulate ancient models. Was economic life, for example, to be based on Christian or pagan models? Would Florence return to the pagan era and all that entailed economically or would she perdure in the Christian religion and work out a new science of economic life based on Christian principles? As in sculpture, so in economics, the Renaissance meant a return to paganism, but the Church was not going to allow this without contestation.

As Guicciardini's *History* indicates, after the failure of the Ciompi rebellion, economic truth in Florence became, in the words of Thrasy-machus, the opinion of the powerful. What was good for the Florentine equivalent of General Motors—the big guilds and the bankers involved in the wool industry—was perceived as good for Florence. In Guicciardini's eyes “the wise and the well-to-do” were one and the same group of people, a group which was well-to-do because they were wise and wise because they were well-to-do. Guicciardini and the Florentine oligarchs failed to understand that the Ciompi rebellion offered an opportunity to learn basic truths about the as-of-then-yet-to-be-invented science of economics. The political reaction which followed the rebellion indicated that certain lessons would never be learned.

In 14th century Italy, industry meant turning wool into cloth. Florentine cloth manufacture reached its zenith around 1350. Clothing was the first European industry, and it gave rise to the money economy as well as advances in keeping track of money and the organization of labor. The wool industry facilitated commerce as well, because the areas best suited for the production of wool were not necessarily the areas best suited for the manufacture of cloth. The best wool, the so-called Garbo wool, came from the Castilian tableland, where for centuries there was no cloth manufacturing. On the other hand: “the major centers of the medieval woolen industry—Flanders, Brabant, and northern France, certain towns of southern France, Lombardy, Venetia and Tuscany—did not derive their superiority from local flocks or pastures so much as from their trade, which enable them to import choice wools easily, even from a distance.”¹⁰ The wool industry, which was in place by the end of the 12th century, facilitated the division of labor, which increased productivity. According to Schulte:

No medieval industry dissolved into such a number of successive tasks, performed by different persons, as the preparation of woolen goods. . . . Gaul provided the greatest variety of colored cloths; and the people who were looking for novelty took a fancy to the many colors. Flanders, where everyone made his

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material according to his own taste and sense of color sent to Germany its green and dark blue cloths for clothing the nobility, which did not know how to make such colors. However, even here we were not completely at a loss. The Rhine area produced lightweight black cloths for monks and nuns, the Swabians produced red cloth where the color was not dyed in the wool; and along the Danube materials with natural colors that were weather repellent (loden) were produced, than which there is no better cloth in all of Germany. . . .¹¹

The medieval cloth industry was the source of modern economic development. The manufacture of wool cloth enabled a gradual transition from the natural economy to the city economy because it did not require a large capital outlay. The same process necessary to produce cloth for home consumption could simply be extended, and the surplus could be offered for sale on the international market, which fostered the circulation of money. The fact that different regions of Europe produced different kinds of wool and, therefore, woollen cloth that served different needs, led to increased commerce. The cloth produced in one region was desirable in other regions because each type of wool had unique qualities. The wool industry also fostered commerce because: "A cloth merchant, in order to satisfy all of his customers, had to provide commodities coming from a vast variety of sources. And just as he himself got his woven goods from far away, his producers had to provide for sales at great distances."¹² Commerce as of the 11th century meant traveling to fairs like the famous fair of Champagne with bags of money and/or bolts of cloth:

In the large-scale export of northern cloth to the south and south-east, either from the centres of production or through the fairs of Champagne, Italian merchants were the most active and enterprising agents; and it was mainly due to them that northern draperies. . . were able to reach the principal markets of the Mediterranean. From the 11th century onwards, a growing number of "Lombard" merchants frequented the markets of France and the Low Countries, and this they did for the primary purpose of buying cloth. Indeed, the whole class of greater merchants in Italy built up their business and economic power on the local sale and re-export of foreign textiles.¹³

The fairs allowed the small merchant to transcend the limitations of local markets, but they brought with them other difficulties associated with travel: "The journey from Florence to Naples. . . bristled with difficulties and dangers. . . . The shortest route from Rome to Naples, the road through Terracina, had such an evil reputation that only troops and public officials dared to use it while all trade went round by sea."¹⁴ Couriers could travel by post horses from Venice to Bruges in seven or eight days,¹⁵ but "it took four months, on an average, to transport a bale of cloth from Flanders to Florence."¹⁶ This system was eventually superseded when the merchants began to work with agents and correspondents and developed the letter of credit, a Florentine invention.

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Manufacturing on this scale required unprecedented sophistication in the organization of both labor and finance. Increased commerce led to the need for increasingly sophisticated forms of payment and book-keeping. The new methods of trade developed by the Italian city states, “especially the growing tendency to do business by correspondence,”¹⁷ revolutionized commerce during the latter part of the 13th century. The bill of exchange made it possible to transfer purchasing power from place to place without the shipping of actual coins. As a result,

It became unnecessary for the merchants to convey their goods themselves and to travel in armed caravans. Goods could safely be entrusted to specialized common carriers on land as well as on sea. The development of maritime insurance made it possible to shift the sea risk to underwriters instead of dividing that risk by chartering space on several different ships.¹⁸

The cloth industry, in particular, “the finishing operations, applied to the woven cloth—cleansing fulling, tentering, rinsing, shearing, dressing and dyeing,” demanded “a complex organization and a substantial advance of capital.”¹⁹ In small operations, one man could perform all of these tasks and could ask for payment in advance:

But in big towns, where production was largely for export and a fairly long period was bound to elapse between the purchase of the raw materials and the sale of the finished goods, the whole organization was inevitably dependent on capitalist entrepreneurs, who could pay all or most of the cost in advance, and also market the cloth.²⁰

Advances in commercial technology, however, were not matched by an equally sophisticated understanding of the role which labor played in the economy. Workers in Florence were hostages to the wool industry, whose techniques were considered state secrets. Wages were kept low to keep prices down and make Florentine fabrics relatively cheap in a competitive market, and the same oligarchs who held down wages denied workers permission to work anywhere else.

The Florentine economy had a number of double standards. Gold florins, which were never debased, were used by the oligarchs in foreign trade, but silver pennies, which were constantly debased, served as wages for the working poor. Merchants and bankers enjoyed unprecedented commercial opportunities, but the Florentine worker was little more than a servant indentured to the wool industry of the town where he lived. Like their Roman predecessors, the Florentine oligarchs chose oppressive taxation as the preferred way of paying for foreign wars and excessive regulation.

The more skilled workers and managers were members of guilds like the *Arte della Lana*, which afforded them a measure of economic protection. But neither they nor the day-laboring proletariat were allowed to sell their skills for a higher price in other cities nor were they allowed to orga-

nize into unions as a way of getting better pay, something which spawned numerous abuses. Unscrupulous employers could pay their workers in truck, which is to say, with the materials which they had produced, but which their employers were not able to sell on the open market. Far from being organizations which represented the rights of the working man, guilds like the Arte della Lana worked hand in glove with capitalist interests. The Marchionne di Coppa di Stefani, chronicler of the Ciompi uprising, claims "that the preponderance of big capital in the 'Arte della Lana' was forcing the smaller businesses 'to sell on credit' since otherwise they could find no customers even by lowering their prices." These same employers could also lower the wages of the proletariat with impunity:

The Commune's labor policy was based on the assumption that enough labor was always available, and that wages should be kept low to prevent any rise in prices. Occasionally, workmen were forbidden to take up posts abroad in case the "secret" should leak out; and again the State sometimes tried to attract workmen from abroad. . . . The commune would not countenance any formation of cartels which might threaten home prices.²¹

Low wages were the norm not only for the urban proletariat laboring in the wool trade, but also for the peasants who supplied the city of Florence with food. "The prices of agricultural produces were purposely kept low by various means."²² Low wages in the countryside not only kept the price of food down, they promoted immigration to the cities, which led to an oversupply of labor there, which helped to further depress wages and keep the prices of the finished textile products low. The idea of low prices appealed to the cloth manufacturers, because it appeals to every manufacturer in a capitalist culture, but the interests of the oligarch capitalists were only a part of the economic picture, and economics as a science must of necessity deal with the whole picture. If it does not then it is not economic science.

The migration of workers to the city kept industrial wages low by keeping the supply of labor high, but it inadvertently led to low labor supply in agriculture, which, *ceteris paribus*, should have led to an increase of wages in the agricultural sector. But other things were not equal, and the state, guided by the interests of capital, stepped in at this point to insure that agrarian proletariat had no more freedom to sell its labor to the highest bidder than the urban proletariat had, and that "the cultivation of the land had to be enforced by law."²³ The Florentine economy, as a result, resembled the worst of both worlds: the brave new world of capitalism for the rich, based on unprecedented commercial opportunities plus advances in financial technology leading to unheard of profits, and the slave economy of the Roman Empire for the poor.

The Church was quick to condemn what it saw as the avarice of the capitalists. The entire 15th century can be seen as one long jeremiad against

greed preached by Dominicans and Franciscans. But no one was looking at the issues as an integrated economic science, because such a science did not exist then. The Church was quick to condemn usury, but slow to understand the role that wages play in the economy. The mendicant preachers who condemned usury and its effect on the urban proletariat failed to see that recourse to usury was symptomatic of low wages, excessive taxation, and a debased currency. "From the point of view of the national economy low wages which harm the economy are most uneconomic," even if "private economic units are seldom elated over the higher costs which higher wages imply."²⁴

To remain competitive with other Italian city states, Florence adopted *ad hoc* protectionist measures, but nothing seemed to stem the downward spiral of economic decline, because nothing addressed the fundamental problem, namely, the contempt for labor which Florence had inherited from the ancient world. In order to cut costs, the guilds eventually began to cut back on the quality of their goods. High import duties then got added to protect local industry, which was now turning out inferior products, against foreign competition. The Florentine oligarchs attempted to deal with increased competition in the garment industry by establishing regulations which favored the silk industry. But the regulations were not in the interests of the workers in that industry, and therefore not in the interest of the economy as a whole, because skilled artisans were "forbidden to manufacture. . . brocades and silk. . . and looms anywhere but in Florence, or to form a society for that purpose on pain of death and the seizure of property."²⁵

At the heart of the Florentine economy lay a large double standard. The oligarchs could manipulate the labor market in their interest, but the worker was forbidden by state regulation to improve his wages by entering the labor market which valued his skills. Rather than remedy the injustice at the heart of the Florentine labor market, the oligarchs who defeated the Ciompi sought to keep them underpaid through "prohibitive regulations," which "became much more frequent about 1450."

In 1458 the import of every sort of product from Italian cloth firms was forbidden to help production at home and stop the flow of cash from Florence. Even in those times it was obvious that the production of cloth was dying out and the people were suffering want and privation. As a result,

Widespread smuggling became common. As early as 1460, at least the cheaper kinds of foreign clothes were allowed to be introduced into the neighborhood of Pisa and Leghorn. In 1466 the import of lesser woolen materials which the population needed, was again permitted, since a great scarcity had been felt in stuffs necessary for clothing purposes, especially those which were not produced in Florence at all.²⁶

The Signoria then tried to save the textile industry via import duties: "In 1441 Flemish and English goods which did not arrive on Florentine ships were subjected to a special tax of 8 percent besides the usual duty." But export duties combined with low wages only accelerated the decline of the industry. When decline proceeded apace, the Signoria experimented with abolishing export duties. In 1478 the Signoria ruled:

since the silk trade is practiced so little and the cloth trade not much more, with the result that a part of the population who depended on these trades for their livelihood, is reduced to great want, to begging and the asking of alms, the export duties on Florentine wool and silk products will be abolished as an experimental measure.

Sanguine hopes of recovery through isolation had not then been fulfilled. But by 1480, this measure—for fiscal reasons—had again been put aside. Fiddling with tariffs did not stop the decline because the heart of the issue was wages. Indeed, the main point of tariffs is to protect domestic manufacturing, but manufacturing cannot be protected if the work force is not making enough money to survive. The oligarchs were handicapped because they didn't understand that low wages invariably lead to economic decline by crippling demand, something that cannot be remedied by selling in foreign markets. Blinded by their own self-interest, the oligarchs were unable to address the real issue. Low wages crippled demand, which ultimately led inexorably to economic decline, and no amount of protective legislation could halt that decline.

The Florentine oligarchs never learned that "wages. . . cannot be regarded as costs from the point of view of the national economy."²⁷ The science of economics is the science of exchange, something which invariably involves two parties. Defining it solely in the interest of one of those parties, as the Florentine oligarchs did in the wake of the Ciompi rebellion, gave an inaccurate idea of what needed to be done, which over the long run led inexorably to economic decline. Capitalism in its nascent form blinded the Florentine oligarchs to the fact that "workers are a part of the nation." Hence, "from the standpoint of the national economy, the wage counts as part of the national income and not part of economic costs." To a business, labor is a cost that is subtracted from revenue to determine profits. But to the economy as a whole, the only way businesses have demand for their products is if people have sufficient income to express their demands in the marketplace. Concentrating wealth and profits into the hands of the rich reduces overall demand in the economy; the rich can only eat so much; they only need so many clothes, etc. They may buy extra luxuries with some of their surplus, but mostly they use it to hoard, or they lend it out at usury.

Furthermore, the accumulation of gold at the expense of the worker blinded the Florentine oligarchs to the fact that labor is the only thing that

can turn money into wealth. Money, as the scholastics had learned from Aristotle, was sterile. By constantly driving down wages, the Florentine oligarchs were inadvertently destroying their ability to create wealth by making it impossible for the worker to reproduce, which is to say, to form the families which are the primary cell of the economy. Low wages were the chemotherapy which stopped the replication of cells in the Florentine body politic and body economic.

As a result, the system kept failing, and no one could explain why. The same oligarchs were also blinded by the lure of chrematistics and usury (via the nascent banking industry) and therefore moved to contradict Aristotle and the scholastics by claiming that money was not sterile after all. Proof of that was the return on usury, which they also failed to understand as totally illusory over the long haul no matter how lucrative it seemed in the short term.

The economic policies of the Florentine oligarchs were based on keeping prices low because that allowed them to undercut their competitors. They failed to see that their self-interest contradicted the common good, and as a result it undercut the development of the local economy. Economists born after the publication of Adam Smith's *Wealth of Nations* have been blinded by his glorification of self-interest as the mainspring of the economy. The Florentine oligarchs weren't blinded by this ideology; they were simply blind. Theirs was not a willful choice of ideology over reality. They simply did not understand that when reduction of private economic costs entails the reduction of wages, "private economic interest in no way corresponds to the national economic interest."²⁸ They did not know that price is an ancillary good, nor did they understand that the lowest price is not the best price because even:

Assuming that the reduction of production costs is actually reflected in lower prices, what good are the lower prices if the purchasing power, the ability of the great masses of people to pay, has been decreased?²⁹

More importantly, they did not know that:

To strive for an increase in the national income... simply by increasing entrepreneurial profit... will not work. Wherever such increase takes place by unduly cutting workers' income, it represents misfortune for the national economy. A populace which lives in poverty and misery finds even cheap goods too expensive.³⁰

By holding down wages to keep prices low, the Florentine oligarchs thwarted the development of the economy. If they wanted to turn the economy around, they should have applied "all their energies to reducing economic costs, while paying good wages to their workers."³¹ Instead of forbidding cartels, the Signoria should have allowed the workers to organize to keep wages high. The Signoria would have brought the economic system

into conformity with important economic realities, e.g., the fact that "it is hard for the worker, when engaging in a conflict with his employer to gain the upper hand" because "coalitions of masters, whose numbers are smaller. . . find it easier to organize. The law does not forbid these, but it often does forbid the workers to organize. 'We have no acts of parliament against combining to lower the price of work; but many against combining to raise it.'" ³²

But the most important point is the moral of the tale of King Midas, a piece of ancient culture which made no impact on the mind of the Florentine oligarchs. If they had pondered this ancient wisdom, they would have understood that gold and value are not synonymous. Labor is the only "philosopher's stone" which can turn money into wealth. If the oligarchs depress wages enough, they will wreck the economy's ability to turn money into wealth because without workers there is no wealth. This truth, unfortunately, only becomes apparent over the long haul when, because of lack of sustenance, the worker fails to reproduce. "There is . . . a definite rate below which the wage for even the least skilled labor cannot fall over the long run." When the wage is not "sufficient to at least provide subsistence on a continuing basis for the worker and his family" ³³ the economy breaks down and can no longer produce wealth no matter how much gold the wealthy have accumulated. When the oligarchs failed to allow payment of a decent wage after co-opting the Ciompi rebellion, they set in motion the forces of irreversible economic decline.

Pesch claims that "it is not in the richest countries that the wage will be the highest, but in nations which are in the process of rapid development toward becoming rich." ³⁴ But the converse is also true. Nations where the wages are highest are also nations in the process of becoming rich.

Once the Florentine oligarchs appropriated all surplus value from the worker by paying him a subsistence wage, money began to accumulate in their hands, and once money began to accumulate, they began lending it out at usury. Once they lent it out at usury, the money was gone, ultimately never to return, which they learned to their chagrin when the princes who were the Medici's principal debtors all defaulted on their loans. Piero the Gouty, Cosimo's son, discovered that truth the hard way when he tried to call in loans after his father's death. Once it became apparent that that money was gone forever, Piero's son, Lorenzo the Magnificent, kept the Medici enterprise (and the Florentine economy) going for a while by a combination of theft (from his relatives and the Florentine treasury) and caesarism, with a liberal dose of bread and circuses thrown in to keep the masses in the dark. Ultimately, the Florentine oligarchs failed to see when "the interests of the individual economic unit. . . come into confrontation with the interest of the national economy. . ." ³⁵

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Economics is a practical science, part of what Kant called practical reason, which means that its purpose is to achieve the good, rather than the truth, which is the goal of pure reason. Practical reason begins with ethics, which is the science of how the individual achieves the good. It culminates in politics, which is the science of how the state achieves the good. The science of how the household (or city state or national economy) achieves the good is economics, a term which derives from *nomos*, meaning "law" and *oikos*, the Greek word for household. The ultimate goal of economics is the good of the whole nation. Each person should benefit from the economy according to his own participation in it, but that remuneration finds its lower limit in the living wage.³⁶

The "economic principle" (minimum input with maximum output) consists simply in the application of a universal law of practical reason in the exchange of goods and services. Since it is part of practical reason, economics cannot contradict ethics. Actions which are immoral are ultimately self-defeating from an economic point of view, because in cheating a fellow member of the national economy, the exploiter may enrich himself but he does so at the expense of the economy as a whole. Economics cannot be an instinct, "self-interest," or a passion because if it were it would not be reason. Furthermore, there is always

a danger that these spontaneous natural drives can become dominant in human endeavor and lead to unrestrained covetousness. It is the continuing task of human reason and of the moral law which regulates all human ambition and action, to guard the instincts and instinctive life against straying from man's natural purpose and from going beyond the limits of moderation as called for by reason and morality. Man has higher goals than the greatest possible amount of pleasure for the individual involved; and therefore he also has a higher norm in his economic activity than maximizing the individual sense of pleasure and minimizing individual pain! Human reason and conscience, love for justice and a sense of community provide powerful "mainsprings," more exalted motives and incentives for acting in this area where people work out their material welfare, and these are more important than all of the impulses of our natural instincts.³⁷

Economics is a science but it is not a science like physics: "The future here cannot be predicted with anything like the certitude with which the astronomers can tell us about future eclipses of the sun and moon."³⁸ Rather, ethics is to economics what mathematics is to physics:

The physicist takes over propositions from mathematics without ceasing to be a physicist. The very nature of the formal object of his science forces the economist to take into account truths of juridical, technical and natural sciences. Why should ethics be an exception to this rule? . . . economics. . . is an ethical science in the sense that we regard all of the sciences that deal with free human actions as ethical sciences. Therefore, it must have due regard for the moral law govern-

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ing free human actions. But that does not make it a branch of ethics as such. It has its own formal object: the proper economic arrangement and direction of human actions and institutions. . . . their purposeful direction with reference to the material general welfare of the nation.³⁹

Because it is part of practical reason, economics can't dispense with the "ought." Economics deals with what is economically good and proper:

economics deals with the performance of the person acting as a rational, free, moral being as influenced by various needs which call for satisfaction, albeit in the face of a limitation of the material goods and labor capacities available for satisfying those wants, and in competition with persons who have similar needs for the means to satisfy those wants.⁴⁰

Because economics is a branch of practical reason and because it exists to achieve the good, the conclusions of a sound economics "must remain in harmony with the moral law."⁴¹ Nowhere else does the golden rule "Do unto others as you would have them do unto you" apply more than in economics, and this is so because the golden rule involves a transaction. Similarly, "man does not economize in isolation [like Robinson Crusoe] but in the framework of society. . . . The material object of economics . . . the economic life of a politically unified nation." To abstract the interests of one party from that transaction and make them the norm of economic activity, as the Florentine oligarchs did, is a recipe for economic decline:

Economics is not entitled to present what is morally impossible as scientifically established truth, any more than it can propose what is physically impossible. Gladstone's saying that what is morally false cannot be politically correct applies equally in the area of economics.

Economics is not "the science of how to increase wealth in whatever way possible. If that were the case, it would have to include among its methods also deception, theft, and the plunder of conquered people. But where can you find an economist who has the gall to propose that?"⁴² Looters can accomplish their goals only at the expense of a sound economy because "the economy" refers to the sum total of the kinds of human transactions which are directly related to realizing the material side of human welfare.⁴³

The prime danger for any state has always been to reduce the science of economics to the interests of the rich and powerful. Without decent remuneration for work, any economy is doomed to fail. This is why James Carney calls the living wage the "flywheel" of the economy:

In fact, the paying of a living wage is the flywheel of the economy. Without it there is no consumer spending or savings that provide the investment for those things which produce necessities that are in fact the bulk of production. The rich invest in speculative things, in riches and luxuries, which do not sustain or make the economy grow. In fact, luxuries become more expensive, relatively, in a stagnant economy, so even the rich are worse off, absolutely, if not relatively to

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the poorer classes.⁴⁴

Florence in particular, and northern Italy in general, had stood at the center of unprecedented economic development for over two centuries, but mixed in with that economic development were practices that were wrong-headed, self-defeating from an economic perspective, and clearly immoral. Just because certain policies enabled the magnates to become rich did not mean that they were economically sound. The *popolo grosso* would learn this lesson the hard way, in the expensive school of experience. When they ignored the voice of the *popolo minuto*, they cut themselves off from lessons in economics that they needed to learn to stave off the collapse of the system which made them rich. They needed to learn that:

Economic policy embraces the endeavor of the state, using the means available to the entire community, to bring about and safeguard the fulfillment of the economic process—the process of providing material goods for the nation in a manner which corresponds to the national welfare.⁴⁵

Economic policy which benefits one class at the expense of another is a form of looting, not economic development. Cheating the worker out of a living wage is self-defeating behavior for any polity, but once the oligarchs of Florence regained power in the wake of Ciompi rebellion, they made driving down wages, which was in their interest but not in the interest of Florence, the cornerstone of domestic economic policy. The fundamental unit of all economic life is the transaction. In any transaction, the stronger party will invariably be tempted to take advantage of the weaker.

Because there was no science of economics at the time of the Ciompi rebellion, there was no sense that the ultimate goal of economics is the good of the whole nation.⁴⁶ As a result, men judged the rightness of economic decisions from the perspective of their own self-interest and did not understand that the unhindered pursuit of self-interest in the economic sphere leads to the collapse of economic exchange, as it had during the end of the Roman Empire, and as it would for centuries into the future.

The growing preoccupation with usury on the part of churchmen in the Middle Ages was in a certain sense misplaced. Usury was symptomatic of deeper ills. The poor needed to borrow money because they were not being paid a living wage. In spite of the unprecedented wealth which accrued in Florence during the course of the 14th and 15th centuries, prosperity among the merchant class was accompanied by “peasant poverty and proletarian destitution” because “the new aristocracy of money [chose] to withdraw their capital from industry and trade and invest it, from motives of security and social prestige” rather than pay a decent wage to the people who had earned that money for them.⁴⁷ Thus, they cut their own throats because they failed to see that the net result of low wages is economic decline for the entire economy, which is to say for the rich as well. There is

no economy without people. High wages cause an increase in population, and an increasing population is "the decisive indicator that a country is prospering."⁴⁸ Conversely, "the meager subsistence of the working poor is the natural indicator that things are in a state of stagnation, and when the poor are suffering want, this indicates that a nation is going into reverse."⁴⁹ When the state ignores the well-being of the worker, economic decline follows. If a worker does not earn a wage that allows him to support his family, this means the end of the "machine" which turns money into value. It means the end of the economy, because

Without continuing, exhaustive, and orderly work, mankind cannot survive; the world of nature will not be brought to subjection; and development and progress will not take place, either for the individual, or for nations, or for the entire human race.⁵⁰

The history of economics is prone, perhaps more than most disciplines, to the falsifications of Whig history, particularly when dealing with the question of usury. In the economic version of Whig history, the Church is blamed for hindering economic progress by not accepting usury. Parkes claims that "within the Church alone could have been found the men who might have evolved a reasonable theory of usury." But, unfortunately, the Church

made the whole profession disreputable, attached a stigma to every kind of business loan, destroyed all attempts to put the profession on the rational basis on which it could have rendered immense services to the community, and by adding to the normal risks of the profession excommunication . . . justified the usurer in increasing his charges. Further, since the usurer was but human, he naturally retaliated on the society which ostracized and outlawed him by employing every device discoverable to outwit his enemies and ensnare his debtors. Hostility accentuated his avarice and finally produced the finest example history offers of the principle that it is better to be hanged for a sheep than a lamb.⁵¹

Parkes defends the pagan position as more reasonable,

Roman society . . . was not interested in the morals of the question or the eternal salvation of the merchant. It . . . left it to the intelligence of each to look after his own interests. Further, Roman law recognized an absolute right to the possession of property, and to unlimited freedom of contract, two ideas which were not present in the custom of the Germanic societies which formed so large a proportion of the membership of Christendom.⁵²

Parkes goes on to claim that "the absoluteness of the prohibition [against usury] corresponded so little to the needs of a developing society that it doomed itself to sterility."⁵³ Similarly, De Roover claims that "The practical result of the usury prohibition, intended to protect the borrower, was to raise the cost of borrowing. To this extent the Church's legislation on usury may have retarded economic growth."⁵⁴

Both de Roover and Parkes are wrong. It wasn't the Church that hindered economic development; it was low wages, moral decay, magic, and paganism, rampant in northern Italy during the 15th century, which hindered economic development. "The wise and the well to do" found common cause with the sodomites, Jews and bankers who profited from the status quo and gave their full support to the culture of profit maximization and usury that we now call capitalism. The corruption of morals hindered the emergence of economic science in Florence during the course of the 14th and 15th centuries, not the prohibition against usury. Since economics is inextricably bound up with ethics, this should come as no surprise. Moral decline, not obscurantist views on usury, postponed the emergence of economics as a science. The decline of morals in the 15th century led to a confusion between genuine economic advance and avarice which has perdured to this day. The term capitalism is evidence of this confusion. In contemporary parlance, it refers to both rationalized avarice and legitimate economic science at one and the same time.

After the defeat of the Ciompi, the bankers, the merchants, and the capitalists who ran the woolen and then silk industry drove down wages as a way of cutting costs and maximizing profits and in doing so they unwittingly cut their own throats. Money is sterile. Human labor is the only thing that can turn gold into wealth. That means that the wage is the basis of the economy. In subverting the demands of the Ciompi, the Florentine oligarchs committed their republic to suicide on the installment plan. Like Faust, they got short term gains at the price of eternal loss.

By the time of the Ciompi rebellion in 1378, Florence stood at the peak of unprecedented economic development. The trajectory of economic development had led to the Ciompi rebellion in a way that no one could explain because there was no science of economics to explain what had happened. Manufacturing of unprecedented complexity had led to commerce, commerce of unprecedented complexity had led to inventions like double entry bookkeeping, the bill of exchange, insurance, and fractional reserve banking, which in turn led commerce to develop into finance and banking, which led to widespread acceptance of usury, and that institutionalization of usury led ultimately to financial collapse. At each step of the way, the Florentine oligarchs had two models to choose from: the paradigm of the ancient Romans and Greeks and the as yet incomplete Catholic articulation of economic science.

The Ciompi rebellion was symptomatic of economic disorder in an age which had no science of economics and, therefore, no way of distinguishing among policies which were good, bad or indifferent. There was no distinction between chrematistics, the accumulation of gold, and science of economics. Once the Florentine oligarchs regained their power, their inter-

ests, not the common good, became the economic norm for Florence. As a result, the unhindered pursuit of self-interest led to the decline and fall of Florence as the pre-eminent economic powerhouse of 15th century Europe.

Endnotes

- 1 Bede Jarrett, O.P., *S. Antonino and Medieval Economics* (St. Louis, MO: S. Herder, 1914), p. vi.
- 2 Samuel K. Cohn, *Jacob H. Schiff: A Study in American Jewish Leadership*, (Hanover and London: Brandeis University Press, 1999), p. 62.
- 3 Ibid.
- 4 Francesco Guicciardini, *The History of Florence*, translated by Mario Domandi (New York: Harper & Row, 1970), p. 1.
- 5 Or resurgent capitalism, in the sense that the Renaissance involved a rediscovery of ancient models.
- 6 Jarrett, p. vi.
- 7 Ibid.
- 8 Odd Langholm, *The Legacy of Scholasticism in Economic Thought* (Cambridge: Cambridge University Press 1998), p. 30.
- 9 Jarrett, p. vi.
- 10 Heinrich Pesch, *Lehrbuch der Nationalökonomie*, Translated and edited by Rupert J. Ederer, (Lewiston, NY: Edwin Mullen Press, 2002), Volume I, Book 1, p. 12.
- 11 Pesch, *Lehrbuch*, I, 1, p. 13.
- 12 Pesch, *Lehrbuch*, I, 1, p. 12.
- 13 Gino Luzzato, *An Economic History of Italy from the Fall of the Roman Empire to the Beginning of the 16th Century*, (New York: Barnes & Noble, 1961) p. 105.
- 14 Luzzato, p. 111.
- 15 Luzzato, p. 112.
- 16 Luzzato, p. 117.
- 17 Raymond de Roover, *Money, Banking and Credit in Mediaeval Bruges: Italian Merchant-Bankers Lombards and Money Changers A Study in the Origins of Banking* (Cambridge, Massachusetts: The Mediaeval Academy of America, 1948), p. 12.
- 18 Ibid.
- 19 Luzzato, p. 107.
- 20 Ibid.
- 21 Luzzato, P. 37.
- 22 Luzzato, p. 42.
- 23 Luzzato, p. 41.
- 24 Pesch, *Lehrbuch*, I, 2, p. 264. Technically speaking there was no such thing as a national economy at this point in history. But from the point of view of

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labor and wages, the same point applied to the intermediary economy of a city-state like Florence.

25 Pesch, *Lehrbuch*, II, 1, p. 389.

26 Ibid.

27 Pesch, *Lehrbuch*, II, 1, p. 397.

28 Pesch, *Lehrbuch*, II, 1, p. 398.

29 Ibid.

30 Pesch, *Lehrbuch*, II, 1, pp. 397-8.

31 Pesch, *Lehrbuch*, II, 1, p. 398.

32 Pesch, *Lehrbuch*, II, 1, p. 150.

33 Ibid..

34 Pesch, *Lehrbuch*, II, 1, p. 151.

35 Pesch, *Lehrbuch*, II, 1, p. 397.

36 Pesch, *Lehrbuch*, I, 1, p. 15. The word “economy” (from the Greek, oikos and nomos) was already found in Xenophon, and it referred to sound management of the household. It uses these in a manner which assures the well-being of the house and its members.

37 Pesch, *Lehrbuch*, I, 1, p. 17

38 Pesch, *Lehrbuch*, I, 1, p. 117.

39 Pesch, *Lehrbuch*, I, 2, p. 307-8.

40 Pesch, *Lehrbuch*, I, 1, p. 17.

41 Pesch, *Lehrbuch*, I, 2, p. 304.

42 Ibid. Pesch wrote that sentence before the rise of Milton Friedman and the Chicago School of Economics.

43 Pesch, *Lehrbuch*, I, 1, p. 13.

44 *Culture Wars*, November 2010.

45 Pesch, *Lehrbuch*, I, 1, p. 222.

46 Or, in this instance, city-state.

47 Luzzato, p. 145.

48 Pesch, *Lehrbuch*, II, 1, p. 152.

49 Pesch, *Lehrbuch*, II, 1, p. 151.

50 Pesch, *Lehrbuch*, II, 1, p. 12.

51 James Parkes, *The Jew in the Medieval Community* (New York: Hermon Press, 1976), p. 298.

52 Parkes, p. 301.

53 Ibid.

54 Raymond de Roover, *San Bernardino of Siena and Sant'Antonino of Florence: The Two Great Economic Thinkers of the Middle Ages* (Boston: Baker Library, Harvard Graduate School of Business Administration, 1967), p. 38.

Chapter Four

The Medici Bank

Worn out by the social turmoil which followed the Ciompi rebellion, the people of Florence turned for relief to their Parliament, which restored order by placing the government into the hands of the people Guicciardini referred to as “the wise and the well to do,” who “provided great unity and security until nearly 1420.”¹ Guicciardini found this unsurprising because, as Plato had said, the people nearly always preferred tyranny to anarchy. In this instance, “men were so worn out by the recent turbulence that they were glad to keep the peace under this orderly regime.”² Once order was restored and the oligarchs restored to power, the Medici family started expanding and consolidating its banking operation.

In 1397 Giovanni di Bicci de Medici took the 5,000 florins he had obtained from his wife’s dowry and returned to Florence to found what has come to be known as the Medici Bank. Giovanni di Bicci had been managing a bank in Rome for his nephew Averardo, but he returned to Florence, which had been the home of the big Florentine banks of the 14th century—the Bardi, Acciaiuoli, and Peruzzi—because it offered better financial infrastructure and better investment opportunities than Rome.

Capitalism in the age of the Medici meant, of course, commercial capitalism. The Medici were merchant bankers, which is to say involved simultaneously in banking, commerce, and manufacturing. The Medici became involved in the manufacture of wool in 1402 when they built a factory for the production of woolen cloth. In 1408 they built another factory and eventually became involved in the production of silk cloth as well. Manufacturing and commerce in Florence, however, became, as they had in ancient Rome, hostages to both capitalism and imperialism, both of which had a deleterious effect on economic exchange.

As in ancient Rome, so in medieval Florence. Onerous taxation to pay for perpetual war led to a rise in prices, which in turn led to decreased demand for commercial products, something which both the Romans and the Florentines tried to counter by debasing the coinage and/or lowering wages. In neither instance were those methods successful, and soon commercial dominance began to slip out of the hands of the Florentine oligarchs just as it had slipped out of the hands of the Romans plutocrats, when

the western provinces began to copy the products of Italian industry [and] learned to cultivate the main commercial products of Italian farming, such as wine and oil, and began trading on their own account. With this the economic primacy of Italy was broken. The newly domestic markets, but also in neighboring regions like western Germany and Britain. Romanized dominions, Gaul and

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Spain especially, were now no longer subjects but rivals, drawing off demand from Italian goods not only locally in their own.³

Facing ever stiffer competition from the cloth-making centers of northwestern Europe, the Medici got more and more involved in finance during the course of the 15th century and less and less involved in manufacturing. During this same period of time in which they opened their woolen cloth factory, the Medici Bank “became a major dealer in debt bonds.”⁴ According to de Roover, “Everything went well for a few years. However, as the public debt grew, it became more and more difficult to pay interest punctually.”⁵ The decision not to amortize the Florentine debt led to a long decline in bond prices. Parkes claims that by 1426 the city debt bonds “were trading at only 20 to 35 percent of face value, a decline based on “the idea of the government’s ever paying interest was now considered a very long shot.”⁶ De Roover’s figures are less dramatic, but indicate that the prices fell nonetheless “to 60 percent in 1427, 35 percent in 1431, and 20 percent in 1458.”⁷

As the figures from the bond market indicate, the efflorescence of Florentine culture, otherwise known as the Renaissance, took place when banking, commerce, and manufacturing were all in decline. The rate at which the Medici amassed their fortune was much faster than previous Florentine banks, but the rate of their decline was faster as well. That’s because the story of Florence in the 15th century is the story of usury and the debt cycle it creates. Florence was a moneylender to princes but it was just as much a debtor because it needed to finance a seemingly endless succession of increasingly expensive wars. In order to pay for her wars, Florence had to tax her citizens. If the study of history has shown anything, it has shown that no country or empire on earth can finance perpetual war. Those which attempt to do so end following trajectories that are remarkably similar because all are a function of the formal causality associated with usury.

From the Crusades in the 1200s to the Great Discoveries in the 1500s, Italy was the dominant economic power in the western world, and its merchants were the leading businessmen. They were the middlemen whose trade relations linked the Levant to the shores of the North Sea. “This hegemony of the Italians rested largely upon superior business organization. As a matter of fact, they laid the foundations for most of the business institutions of today.”⁸

The Italians were not only the principal merchants but also the principal bankers. No one who has studied economic life during the late Middle Ages in Italy can seriously maintain that capitalism developed north of the Alps after the Reformation. As de Roover says, “Modern capitalism based on private ownership has its roots in Italy during the Middle Ages and the Renaissance.”⁹ Serious scholarship “belie[s] the Max Weber thesis, according to which the capitalistic spirit is supposed to be a product of the Calvinist Reformation.”¹⁰ Giovanni di Bicci and Cosimo di Giovanni “were imbued with a capitalistic spirit of acquisitiveness and were bent upon accumulating great wealth.”¹¹

The Medici Bank was the most important bank of the era, largely because it

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helped to define the nature of this transitional era, and as a result it helped create the outcome that has come to be known as the modern world, whose financial form is known as Capitalism. The Medici Bank occupied a crucial middle point between the feudal or closed domestic economy, “where goods are used in the same economic unit where they came into being” and the national economy “where goods, as a rule, pass through a series of economic units before they reach the point where they are put into use.” Florence was the prime example of the intermediary “stage of the city economy. . . where goods move from the economic unit which produces them directly to the one which consumes them.”¹²

The Medici played a crucial role in the development of capitalism, not because of any particular invention but because they were the heirs of centuries of economic development in Italy and because they put those developments to good use. The success of the Medici “was mainly due to the efficient use of existing methods and proven techniques.”¹³ The Medici did not develop the bank note or the art of making payments by book transfer on the strength of oral or written orders or double-entry bookkeeping, nor did they invent the bill of exchange in draft form or maritime insurance, but they put all of these Italian inventions to good use.¹⁴

The Medici Bank would go on to become the most powerful banking house of the 15th century.¹⁵ Once order was restored and the oligarchs restored to power, the Medici family started expanding and consolidating its banking operation. In 1402 Giovanni di Bicci added a branch office in Venice, but in spite of these moves, the fortunes of the Medici Bank were always tied to Rome, where they assumed the dominant role in papal banking over the course of the 15th century. In order to simplify their financial operations, which involved all of Europe at the time, the popes created a Depositary of the Papal Chamber, “a single banker whose company received and kept on deposit church revenues from all over Europe, and paid out sums as ordered by the Curia, taking a percentage of the transaction as commission.”¹⁶ The popes chose the Medici Bank to play this role. The Medici Bank “served as financial agent of the Church, extended credit to rulers, and facilitated international trade in Western Europe.”¹⁷ It also laid the foundation for modern capitalism.

Florence conquered Pisa in 1406 and finally gained an outlet to the sea unencumbered by the exorbitant insurance premiums the port city states were accustomed to levying on their cargoes. The conquest of Pisa was accompanied by signs of economic recovery, and once peaceful conditions returned to the city, this important victory, as well as the economic benefits which accrued from it, would “strengthen the hands of the oligarchy” in their ongoing attempt to demonize the Ciompi as criminals and their economic demands as seditious. The history of the Ciompi revolt was a constant source of fear among the ruling oligarchy because “social conditions were as ripe as ever for another rebellion and for the overthrow of the oligarchy.”¹⁸

The conquest of Pisa in 1406 may have inaugurated Florence’s golden age, but

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appearances were deceptive. Florence's wars did not end with the conquest of Pisa, and since the wars continued, the taxation necessary to finance them became increasingly onerous. Twenty years after the conquest of Pisa, Giovanni Morelli complained in his *Ricordi*:

Here are we citizens of Florence of the 9th November 1426, having exhausted during the last two years in the war 1.5 million gold florins as well as more than a million in both 1423 and 1424, and now our current expenses are 70,000 gold florins per month. But still you go on with the war, make more wars, blow wind into the sails of those whom the war fattens. Florence has never ceased to be at war and never will, unless every year four members of the larger guilds have their heads struck off.¹⁹

According to Giovanni de Medici: "the parlous condition of the Republic . . . is wholly due to the taxes,"²⁰ which means that the parlous condition of Florence was due to perpetual war. In both Ancient Rome and Florence in the late Middle Ages, perpetual war led to unsupportable taxes. In the late Roman Empire:

Oppressive taxation was the consequence of territorial conquest for only a paid professional army of soldiers and officials could administer the vast dominions of imperial Rome and defend its frontiers against attack. . . . the most burdensome charge was a direct tax assessed on land and on the people working it.²¹

In Florence, the same dynamic applied. Perpetual war led to ruinous taxation. Except for the decade 1414-23, Florence was constantly at war between 1390 and 1454. "Between 1390 and 1392, the communal treasury paid out 2,185,000 florins in war-related expenses alone and collected 1,473,000 florins in forced loans."²² In order to pay back these loans and the increasingly onerous interest burden that accompanied them, the Florentines were subjected to crushing taxes. This, of course, meant that "military expenses were concentrating power in the hands of those wealthy enough to underwrite them."²³

The conquest of Pisa gave Florence duty-free access to the sea, but the price they had to pay was considerable, and not just in monetary terms. The cruelty of the siege, during which women and children were forced to occupy the space between the city walls and the Florentine camp, "eating grass and dying of starvation,"²⁴ created an abiding hatred among the Pisans, who sought to avenge themselves against Florence by allying themselves with their enemies.

Worse than that the Florentines, like virtually every imperial power which followed, had to lie to themselves by ennobling the conquest of Pisa and the maritime empire it brought into being as beneficial to the human race. In his panegyric to the city of Florence, the humanist Leonardo Bruni claimed that

all wars waged by the Florentine people are "most just" . . . because the Florentines had committed themselves to a "struggle against tyranny" that began a long time ago when certain evil men undertook the worst crime of all—the destruction of liberty, honor, and dignity of the Roman people. At that time, fired by a desire for freedom, the Florentines adopted their penchant for fighting and

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their zeal for the republican side.²⁵

Like later apologists for the maritime empires of the 20th and 21st centuries, Bruni claimed that the wars Florence fought were necessary for the defense of liberty. Liberty, in other words, absolved the imperium of any trace of guilt which might have accrued from her wars.

It did not, however, absolve them of the debts which accrued from the prosecution of those wars. The *condottieri* or mercenaries whom the Florentines hired to fight their wars did not come cheap. In fact, over the course of time, they became experts at ensuring that the wars they fought would inflict minimal damage on themselves and maximal cost on the governments who hired them. The nine years between 1424 and 1432 contained high levels of military spending, which combined with the interest owed on the debt used to fund past wars, had become financially insupportable for the commune. The combination of debt and military expenditure reached a peak of 894,000 florins in 1426 and 817,000 in 1427.²⁶ Interest payments on those debts ran anywhere between 167,000 and 280,000 florins per year.²⁷

The result was a crushing tax burden that even the richest citizens found onerous. On February 6, 1432, the commune imposed a tax package composed of 36 separate taxes, all due at the same time, that amounted to a levy of 18 percent of the average citizen's net worth.²⁸ One member of the wealthy Strozzi family had to borrow 38,000 florins to pay his taxes.²⁹

In conquering Pisa, the Florentine empire had embarked upon a trajectory of perpetual war. The conquest of Pisa (1404-1406) necessitated a war with Milan which lasted from 1422-1428, which in turn was followed by the unsuccessful attempt to conquer Lucca, which lasted from 1429 to 1430, and which brought about a second war with Milan, which lasted from 1430 to 1433.

In addition to paying for new wars, Florence had to service the state debt which had been accumulating for half a century, ever since the war with the pope in 1375-8, which "cost Florence the substantial sum of 2,500,000 gold florins." The ruinous war with the Visconti which followed trebled the debt. Since they were invariably fighting each other, other northern Italian city states were in the same position. The War of Chioggia (1378-81) was equally ruinous for Venice: "Not only were taxes sharply increased and large sums raised by voluntary contributions, but forced loans were also levied to a total amount of over 5 million gold ducats."³⁰

The history of Florence during the 15th century, which Luca Landucci recounted in his diary, is "one long complaint about rising taxes."³¹ Early on, which is to say by 1207 in Venice and 1315 in Florence, taxation revenue, however onerous for the population at large, was found inadequate and needed to be supplemented by forced government loans which bore "variable rates of interest according to market conditions."³² In 1347 the government loans in Florence, "which up to then had formed a floating debt, subject to various rates of interest and secured upon different items of the revenue, were consolidated into a funded debt, which yielded

a fixed interest of 5 percent and was freely negotiable.”³³ In Venice, the forced loans “were organized into a permanent debt, at 5 percent fixed interest, in 1262.”³⁴

This did little to stabilize the economic situation. In fact, it exacerbated the problem by making war not only more likely but financially necessary because from now on the value of government bonds became a function of the state’s success in war. In the third year of the War of Chioggia, Venetian paper dropped to 18 percent of face value.³⁵ Eventually, this system of forced loans became self-defeating. During the War of Chioggia,

Venetians were made to contribute sums exceeding their taxable estate, and the payment of interest was altogether suspended, causing government shares to fall abruptly in price. Even the richest taxpayers suffered by this absurd and iniquitous policy, for they were forced to purchase each new issue of war loan at face value and then re-sell it at a fourth or a fifth of the purchase price.³⁶

If they had paid a decent wage, the Florentine elites could have collected more taxes, but instead of doing that they decided to make credit more available; in order to provide money for the citizens to pay their taxes, the Florentine elite invited the Jews into the city. Usury, of course, led to still more popular unrest as the *popolo minuto* fell deeper and deeper into debt to the Jews. But once that became apparent, the Medicis resorted to trickery rather than any genuine reform of the economic system. In order to stifle the revolutionary ferment which usurious debt, a debased currency and the exploitation of the worker, inevitably brought in its wake, the Medicis turned from banking to sophisticated forms of cultural and psychological warfare under Lorenzo, who gave the population a sophisticated form of bread and circuses to distract them from what was really going on.

Endnotes

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4 Tim Parks, *Medici Money: Banking, Metaphysics, and Art in 15th Century Florence* (New York: W.W. Norton & Company, 2005), p. 81.

5 Raymond de Roover, *The Rise and Decline of the Medici Bank: 1397-1494* (Cambridge, Massachusetts: Harvard University Press, 1963), p. 22.

6 Parks, p. 81.

7 de Roover, *Medici*, p. 22.

8 de Roover, *Medici*, p. 1.

9 Ibid.

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- 11 Ibid.
- 12 Pesch, *Lehrbuch*, I, 2, p. 6.
- 13 De Roover, *Medici*, p. 6.
- 14 de Roover, *Medici*, p. 2.
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- 17 de Roover, *Medici*, p. 2.
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- 19 Gutkind, p. 54.
- 20 Gutkind, p. 58.
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- 27 Najemy, p. 255.
- 28 Najemy, pp. 260-1.
- 29 Najemy, p. 261.
- 30 Luzzatto, p. 122.
- 31 Luca Landucci, *A Florentine Diary: From 1450 to 1516* (New York: Arno Press, 1969), p. 2.
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- 36 Ibid.

Chapter Five

Moral Decay

The founding of the Medici Bank in 1397 came at an inauspicious moment in the history of Christendom. By the time the Medicis opened their bank, the heyday of the great expansion of medieval commerce was coming to a close, leaving behind a taste for wealth unknown in the early Middle Ages and a panoply of financial instruments by which wealth could be extorted from the dying boom economy with increasing sophistication. But economic expansion and the increasing sophistication of economic instruments that accompanied the expansion constituted only half of the story.

By the beginning of the 15th century, Christendom was in an all but universal state of moral decay:

In the 15th century Italy had been for a long time so completely deluged by a flood of corruption and iniquity, dissension and crimes, as in appearance to have wholly lost its former fair aspect of piety and Christian manners. In every state of life, self-interest was master, and nothing was thought of but the increase of patrimony and every way of gaining riches, for which men practiced fraud, extortion, and usury. The seas were infested with pirates, and the highways beleaguered by assassins. Men lived buried in licentiousness and sensual excesses. The monks were inclined to laxity, and no longer exhibited their early fervour and devotion. The ancient splendor of piety no longer flourished in the clergy, who were devoted to idleness, amusements and worldly affairs. In other classes, faith was not sound, there was no charity or modesty, whilst in morals all discipline was forgotten. Men were divided into two factions—the Guelphs, who supported the Church and the Ghibellines, who were imperialists; they displayed violent hatred of each other, exchanging reproaches and curses, and very frequently proceeding to deeds of blood, so that the horrible spectacle was exhibited of brothers rising up against their brothers, and murdering each other in the open streets for the cause of their opposite factions.¹

During the 14th century leading up to the founding of the Medici Bank, Christendom was exposed to two trends. The decline of morals went hand in hand with the rise of economic sophistication. When financial sophistication met moral laxity a binary weapon of unprecedented destructive force came into existence. When this weapon finally went off in the second decade of the 16th century, it ended up shattering Christendom.

More than one writer has laid the cause of moral decline at the feet of the Black Death of 1348. Father Bede Jarrett claims that “it stunned men, through their feeling of complete helplessness into a feverish disregard of all moral law.”² In England, Langland, Chaucer, and Wycliffe witnessed the plague first hand and

were reduced to "the silence of terror"³ by it. In Italy, Boccaccio watched the plague as it "broke up the social structure of Europe by the swift removal of one-third of its population."⁴

The first institution to suffer and the institution which suffered more than any other was the monastery. Historians claim that 30 percent of the population of Europe died during the plague of 1348, but the figure is deceptive. Because the disease was spread by proximity, densely populated areas suffered disproportionately higher rates of death. Since all cities were densely populated, their populations suffered the most. Ninety percent of Hamburg died during the plague. Between 1347 and 1350, 75 percent of the population of Florence died, and "the shortage of labor in the woolen industry became so acute after 1349 that immigrant workers from distant places had to be employed."⁵

The same thing was *a fortiori* true of monasteries. Many were all but wiped out by the plague, but there were far reaching consequences for the living as well because "the terrible mortality in the monasteries made the religious superiors eager to fill up the vacant places. Any who presented themselves were accepted, boys, unlettered, inefficient. The strength of the rule was diluted, its standard lowered to encourage these novices to persevere."⁶

Moral decline in religious life led to the disruption of Church governance that has come to be known as the Great Schism of the West, when "the faithful saw two, eventually three, claimants to the Papacy disputing the obedience of the Nations." Jarrett claims that "the second horror was even more appalling than the first. . . . With this division came a further lessening of all effectual control by superiors over their subjects."⁷

Hilaire Belloc makes much the same claim. The Great Schism deprived the Church of one of her main characteristics, unity, because in the establishment of two and eventually three competing papacies, "one may say that the prime condition of Christian unity, a single and powerful headship had disappeared."⁸ The Great Schism also led to moral decline, in particular:

the weakening of moral discipline among the clergy; the far greater weakening of moral discipline among the laity—particularly the rich; an increasing popular indignation at the failure of the official church to reform itself; lastly, that permanent hatred of the Catholic faith which is inseparable from the existence of the Church on Earth.⁹

The collapse of morals turned the papacy into an "Italian Principate,"¹⁰ which begat by reaction competing papacies, and the vacuum in leadership these competing papacies created led to further moral decline, which led in turn "to the rise of avarice among the rich."¹¹ According to Belloc, "The whole story of that whole class throughout Europe in this time of active discovery, expansion and glory was a story of avarice. There was nothing men would not do for the violent and rapid acquisition of wealth."¹²

Avarice was both the cause and a symptom of the Ciompi rebellion. The high-

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er clergy, including the popes of the Renaissance, were caught up in this rise of avarice, but the Mendicants, the Dominicans and the Franciscans, both could and did condemn greed, even (or in the case of Savonarola, especially) when it was found in the higher reaches of the Church hierarchy:

In the 15th century the subject [of licit and illicit exchange] was already receiving considerable attention in the words of Messer (Sir) Lorenzo Ridolfi (1360-1442), San Bernardino of Siena (1380-1444) and San Antonino (1389-1459), archbishop of Florence, all three contemporaries of Giovanni di Bicci and Cosimo de Medici. Later on it was discussed with great competence by Fra Santi (Pandolfo) Rucellai (1437-1497), who became a Dominican friar in his old age after being widowed. Since he was the son of a banker and had been in business himself, one must assume that he knew well how banks operated.¹³

Since economic activity was rightly treated as a branch of moral philosophy, that is how the Mendicants dealt with the conflicts which arose from an increasingly complex system of economic exchange. As Odd Langholm points out:

In the early Renaissance, a growing commercial and industrial economy, the techniques and institutions that served it, and, not least, the mentality that was both its motive power and its products, all called for a reexamination of moral guidelines. This need was felt primarily by the friars. . . but these were friars with a legal background as well.¹⁴

There were drawbacks to this essentially correct approach. In spite of the Mendicants' frequent and repeated condemnation of avarice and usury, the Church could not explain the economic consequences of certain practices; nor, when it came to the complexity of commercial and financial life in northern Italy, especially concerning titles to interest, could she differentiate clearly between legitimate economic advance and morally corrupt practices because the science of economics needed to explain the connection had not been invented yet.

Morals and economics are related, but they are not the same thing. To have a successful impact on nascent capitalist culture in Florence, the Mendicants needed both, but they lacked the latter. According to Pesch, "The medieval era was more preoccupied with incisive investigations of moral judgments in economic matters, so as to provide reliable guidelines for people in their practical conduct. It was not until the modern era that actual economic studies . . . developed. And this occurred, in fact, as soon as the question: what makes a nation wealthy? Was posed and answered in a more or less systematic manner."¹⁵

Ever since the first stirrings of what would eventually become the modern economy, the Church focused its attention on usury, because it was in this area that abuse was most obvious and the need for clarification greatest. The Church objected to usury for four reasons. Usury was wrong because the usurer sold time, which belonged to God alone; usury was wrong because in any loan of things that were consumed by use, the loan perished to the lender. Money, like wine, was consumed with use. The lender, therefore, required interest on something that no

longer belonged to him because it no longer existed. Usury was wrong because in dealing with money, use and consumption were one and the same thing. The usurer was in effect charging for both the wine and the use of the wine; in other words he was charging for the same thing twice.¹⁶ Usury was also wrong because money is sterile.

The argument that money is sterile was never easy to understand, and the rise of capitalist finance over the past 500 years has made it even less comprehensible now than it was during the Middle Ages. John Noonan writes that "Calvin has only contempt. . . for Aristotle's argument that money is sterile. . . . Money is as fruitful as a house or as many other kinds of merchandise. When money buys a field, money then bears money."¹⁷

It's not difficult to understand why Calvin or Noonan would find Aristotle's contention that money is sterile, difficult to understand. Both men grew up in capitalist cultures where usury seemed to be generating unprecedented wealth. Calvin's theology gave rise to Geneva as one of the principal banking centers of Europe. Noonan wrote his book on usury in the aftermath of World War II when the reaction against the rapacious usury of the 1920s was in full swing. One manifestation of that reaction was FHA government-sponsored mortgages, which allowed the average American to buy a home while paying moderate rates of interest.

To jump from that fact to the conclusion (as Noonan seems to do in his defense of Calvin's position) that "money is as fruitful as a house," is to overlook the fact that Americans who made use of FHA loans put that money to immediate use. They invested it in their homes and the money they saved by not paying rent allowed them to pay back, by medieval standards, ridiculously low interest payments in addition to the principal. The only other way a house is "fruitful" is as an article of speculation, but as Americans learned when the housing bubble burst in 2007, that money wasn't really there anyway. The housing bubble proved that when a house is not put to productive use, its money value is essentially a mirage which disappears when the bubble which created its inflated value bursts. In this sense it is exactly analogous to the illusory nature of money generating money from usury and further proof that Aristotle was right after all. Money is sterile.

Noonan's second contention, "When money buys a field, money then bears money," is even more transparently specious. A field only bears fruit if some one cultivates it, which is to say, only when someone applies human labor to it. In fact the very concept of "a field to buy" is only comprehensible as the product of human labor. The American Indian occupied the same territory as Noonan's field, but had nothing to buy or sell, in other words, nothing of value even though we are dealing with the same piece of geography because the Indian, for the most part, never took the time to cultivate the land and create value out of it through the application of human labor. If this is true of a field, which is at least potentially fruitful, then it is *a fortiori* true of money, which is sterile. Money only takes on value when it is

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invested with human effort.

The fact that undeniably intelligent people like John Noonan and John Calvin find themselves incapable of understanding Aristotle's contention about money's sterility shows how powerfully blinding money can become in capitalist cultures. Even someone as well-versed in economics as de Roover gets it wrong. In attempting to explain how "money does not breed money," he writes:

Nobody doubts that a ten-dollar bill left in a drawer, unlike mice, will not bring forth any offspring. However, this is not the point. Money, if judiciously invested, becomes productive of wealth and income. St. Bernardine contradicts himself on this point by insisting in one passage of his treatise that money is barren and admitting elsewhere that it acquires "a seminal quality by being invested in a business venture and becoming capital. . . . The same contradiction is found in Thomas Aquinas."

The passage in question contains no contradiction at all. Human labor is what turns money into value and brings about an increase in value, which then gets translated into a corresponding increase in money. Money, in other words, ceases to be sterile when it gets "invested in a business venture," which is to say when it comes in contact with human labor. The equivocation at the heart of de Roover's claim lies in the phrase "if judiciously invested." He never explains what that means, nor does he explain how usury differs from investments involving shared risk, and as a result compounds the confusion he sets out to dispel.

If both de Roover and Noonan got it wrong, centuries after the invention of economic science, then we have some inkling of the difficulties the Catholic Church faced in the high Middle Ages in dealing with the same issue. The Church tried to deal with the social unrest that accompanied unrestrained free market economic development by applying the moral law to economic endeavor. This meant invoking the venerable concept of usury, but it applied that teaching in a way that often seemed extrinsic to the economic issues at hand. It was as if the Church were trying to superimpose a moral superstructure on something that had nothing to do with morals. That coupled with the corruption of morals exhibited by the papacy, which used excommunication as a financial weapon against Florence, did nothing to foster an economic consensus based on the moral law. In fact, it brought about the anticlerical reaction which has characterized humanist thought ever since. Using the Church's teaching on usury as a substitute for a true science of economics led to a reaction against scholasticism as well, which was still evident half a millennium later, as when John Noonan wrote in 1957, that "usury today is a dead issue, and except by a plainly equivocal use of the term, or save in the mouths of a few inveterate haters of the present order, it is not likely to stir to life."¹⁸

The issue of usury was not dead in 1957; it most certainly was not dead 51 years later in 2008, when the world economy collapsed under the burden of usurious debt. When Noonan wrote his book on usury, capitalism was poised to rise

Phoenix-like from its own ashes once again for another 50-year run, with completely predictable results. The science of economics which could have predicted and warded off those results was ignored. Five hundred years before, as Florence was poised for a run down the same trajectory, that science did not exist, and so the Mendicants did the best they could at explaining economic phenomena with the moral guidelines at their disposal.

Dealing with traditional teaching on usury is simpler if we analyze the problem as it existed in Florence in the 15th century. During the Middle Ages, there was high-end and low-end finance. "The Medici Bank was. . . one of the *banchi grossi*, which usually combined money-changing and local deposit banking with dealings in bills of exchange and foreign banking."¹⁹ The Medici were not considered manifest usurers. The Medici Bank did not deal in pawnbroking, the 15th century equivalent of pay-day loans. This was the domain of "Lombards," "Cahorsins," and Jews. As of 1400 there were no Jewish moneylenders in Florence.

When it came to social unrest, the prime source of trouble was usury which the Lombards, Cahorsins, and Jews practiced. Since money was a rare commodity in the Middle Ages, "the possessor of it was continually tempted to an anti-social exploitation of his monopoly" when the terms of the transaction were unequal, as they invariably were when it came to lending to the poor. The Church maintained that "relieving of the necessities of another with money should have been merely one form of the exercise of that charity which was a fundamental Christian duty."²⁰

Distress went hand in hand with borrowing because of the interest rates which were tolerated then. The normal rate of interest allowed for pawnbroking or distress loans to the poor was two pennies per pound per week or 43 1/3 percent *per annum*. Depending on the agreement which the Jew worked out with the local prince, interest rates could be as high as twice that figure. To get the loan, the borrower had to put some article up for pawn. Since the poor borrower was by definition in financial distress, oftentimes the only thing he could pawn was a necessary article of clothing, which meant going cold and getting sick, or, even worse, a tool, which meant he could not earn the money to pay back the principle of the loan, much less the skyrocketing interest. That meant that the borrower would never get out of debt, which meant he would go on paying forever, and in the course of his never ending payment, pay back many times the amount he originally borrowed. Parkes has no illusions about the effect that this borrowing had on the poor:

It may readily be admitted that the Church took too narrow a view of the problem, but it would be gravely unjust to the immense struggle which she waged for centuries against the sin of usury, to dismiss it simply with censure or contempt. . . . there is not the slightest doubt that the poorer classes . . . did suffer cruelly from the monopolies of the usurers, and were frequently ruined by their legal or illegal exactions.²¹

This low-end pawnbroking usury led to widespread hatred of Jews (as well as

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Lombards and Cahorsins) and oftentimes that hatred led to violence, which was the common man's way of getting out of debt. According to Parkes, "Violence remained the last resort of the debtor who was ruined, or who considered himself to be so, and the bankrupt was ably seconded in his additions by the mass of debtors who merely disliked repaying their debts."²²

Rage over usury led to uprisings in England toward the end of the 12th century. Those who found themselves hopelessly in debt turned on the Jews to whom they owed money and killed them. They then destroyed their financial records, proof, that the cause of the violence was debt not anti-Semitism. Or, put another way, usury was the leading cause of anti-Jewish sentiment in the Middle Ages. The terrible massacre of York in 1190 culminated in the destruction of the archives of the York Jewry.²³ Similar riots followed in London, Worcester, Northampton, Canterbury, Lincoln and Ely, where Jewries were sacked and their records were destroyed. The same sort of thing happened in Germany and France. When the Jews were readmitted to France in 1361, they began charging 87 percent interest on distress loans.²⁴ Within two years, social disruption followed.

By 1363 the protests against the behavior of the Jews caused the king to issue ordinances compelling them to wear their badge, and depriving them of their special courts "because of the awful abuses to which they have given rise." . . . Emboldened by these concessions, the public, especially in the South, refused to pay their debts . . . Officials were ordered to compel people to pay their debts in spite of any document they might produce granting them remission or delay.²⁵

Trying to respond to the plight of the poor and preserve the social order, the clergy advocated a boycott of the Jews, "forbidding any Christian to sell them the necessities of life."²⁶ The king initially ordered his officers to enforce the payment of debts, but after three years the threat of social unrest was so great that the king had to order the expulsion of the Jews and the cancellation of any interest still due on their outstanding loans.²⁷

Jewish moneylenders and social unrest went hand in hand. Since the Church was the guarantor of the social order, she could not tolerate anything which disrupted that order as seriously and obviously as usury did. The Church condemned usury specifically at the Lateran Council of 1179 and for the next 100 years local councils followed suit. The German bishops condemned it at their council in Trier in 1227 and 1228. Usurers were lumped together with "witches, incendiaries, evil-doers, and highway robbers by one council; with fornicators, keepers of concubines and adulterers. . . . [and] The sin of usury was classed with homicide, sacrilege, perjury, homosexual offences, incest and parricide, and, like them, could not be remitted by a priest in the Confessional."²⁸

The Church's condemnation did not solve the problem because the Church's leaders could not address the economic cause of the problem. Increased commercial activity led to an increasing demand for money, but the money supply was limited naturally by the availability of silver and gold, and artificially by the sys-

tematic debasement of the coinage used to pay wages. Blinded by the conflation of money and value which gold invariably engenders, the princes ignored the role which labor played in increasing national wealth and did what they could to increase the supply of gold, which meant turning to the Jews, who seemed to have limitless supplies of it and were willing to lend it out to those in need.

Sensing their moment of opportunity, the Jews took the public relations initiative and began portraying usury as the equivalent of a public service. Meir ben Simeon of Narbonne, a scholar who flourished in southern France in the 13th century, “was very outspoken in his opinions on the positive role of loans and banking in society.”²⁹

“Isn’t it true,” Meir ben Simeon wondered, “that many [of these less privileged] bring livelihood to their households through [the help of] a loan of money [to purchase] one single [cow] for plowing or a bit of cereal or wheat for sowing and [also] for the protection of their families?”³⁰

Shatzmiller claims that “his insistence on the role of the Jewish loan as a relief to the humble and the poor must have sounded very convincing to his contemporaries” because it was “repeated nearly word for word—not by preachers or polemicists but by responsible public authorities” like Pavia’s *podestà*, who wrote to the duke of Milan on 14 August 1482, that since

the Jews had decided to stop lending money to both rich and poor, he was alarmed that this would harm the poor, “who do not have other means of purchasing food if not through placing as collateral an object with the Jews,” and he feared that many of them “might starve to death.”³¹

Northern Italy was the heart of the problem. Matthew of Paris referred to Milan as “a home of all heretics, Paterines, Luciferians, Publicans, Albigenes and usurers.”³² In 1311, the Church called a council in Bergamo, near Milan, and reaffirmed “the old canons excommunicating usurers and refusing them Christian burial, as well as the teaching that usury was a form of theft and that it therefore demanded restitution if the sin was to be forgiven,” a stipulation that was to cause much agonizing of conscience in the Medici family.³³

As economic activity increased, more and more people were drawn into the money economy but with little or no access to the money they needed to function there. A decent wage would have solved that problem, but the idea of a wage—any wage—was so foreign to Europe at this point that no one understood how it functioned in the economy. When it came to abuses at the low end of the economy like short term pay-day loans, the usury issue was epiphenomenal. The real issue was wages.

The Church was slow to react to the real issue because the concept of the wage was foreign to the Christian-Germanic system which succeeded the free market capitalism of the Roman Empire. On the eve of the French Revolution, 98 percent of the population of France was involved in agriculture. This was *a fortiori* true of Europe during the Middle Ages, when the overwhelming majority of the popula-

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tion did not earn wages because 1) they were members of religious orders or 2) they were engaged in agriculture as more or less indentured servants. According to Langholm, it was not until the 15th century that systematic attention began to be paid to the question of the just wage, something he finds "difficult to explain in view of the fact that there is probably no other class of economic contracts in which the relative bargaining powers of the parties tend to be less evenly balanced than in the case of the hire of manual labor."³⁴ In the end Langholm attributes the Church's blindness to the importance of a living wage to the fact that "the friars . . . worked without pay" and that "medieval political thought accepted slavery and various degrees of serfdom and villeinage as being in the order of things."³⁵

The physical consequences of usury are not as apparent as robbery or violence. They appear in the form of the want and possible starvation and death, threatening the debtor if the loan is refused. Economic compulsion is compulsion by a person's own need, utilized by another person to his advantage. Before long, cases involving usury were extended to loans for different purposes:

including that of profitable investment, calling for critical assessment of compulsion and justice in relation to an ever-extending concept of economic need. Before the [13th] century was over, application of this analytical model had been made to the sale and purchase of necessary commodities as well, and it was later to be extended to luxuries. More than two centuries were to pass before cases of labor and wage contracts were similarly subjected to analysis in terms of compulsion by need in relation to consent and justice.³⁶

Usury was condemned in Mediterranean cultures as far back as the written evidence extends. Problems relating to the just price of commodities and the validity of monetary exchange contract, only came to the fore with the growth of commercial capitalism. The question of the just price of labor, in the broad sense of the test of a just remuneration of labor, arose simultaneously with the question of the just price of commodities.³⁷ A solution to what would be known as the problem of the just wage would have to wait for "the gradual replacement of slavery by hired labor in domestic service and with the appearance of industrial capitalism."³⁸

The Medici were not involved in the ruthless exploitation of the poor that pawnbroking involved, at least not directly. The issue of usury as practiced by high-end lenders like the Medici and other *banchi grossi* was considerably more complicated. Because of the fragmented nature of the European economy, nearly all high-end transactions involved changing currencies, a practice which often allowed for disguised interest payments. Bills of exchange always involved time (the typical time for a journey from Florence to Brugge was eight weeks) and therefore interest, though often disguised. All abuses aside, the Church always felt that *cambium* was licit. According to St. Bernardine, *cambium* was necessary because of the great diversity of currencies and because the currency of one country was unacceptable in another without loss to the holder. The "exchangers," therefore,

performed a useful function by facilitating foreign trade “which is essential to the support of human life” and by transferring funds from one country to another without shipping any specie. When it came to high finance, there were a number of titles to interest which found Church approval. If a man failed to pay on time, the lender had a legitimate claim to interest under the title *poena detentori*, “which refers to penalty for tardy payment.”³⁹ In principle, a man was entitled to compensation for loss when that loss had arisen from the failure of another to keep his contract.

Similarly, the title known as *damnum emergens* allowed for compensation when the loss was “actually sustained by the creditor through the debtor’s default,” but the Church never accepted the title known as *lucrum cessans*, which was the medieval term for opportunity cost. The loss following from *lucrum cessans* is potential rather than actual because it is based on “the right to claim the same return as that which he might have obtained in alternative employments.”⁴⁰

Needless to say, a system like this was open to abuse. The lender could write up the loan contract so that it was impossible to pay on time, thereby insuring himself that interest would be paid on the loan. Medieval banking devised various ways to get around the Church’s teaching. As a result, “medieval banking cannot be understood without keeping in mind the usury doctrine of the Church.”⁴¹ To avoid being denounced as manifest usurers, the Medici engaged in all of the practices that the other bankers used to circumvent the Church’s usury prohibition.

Since interest was ruled out, bankers had to find other ways of lending at a profit. The favorite method was by means of exchange by bills. It did not consist in discounting as practiced today, but in the negotiation of bills payable in another place and usually in another currency. Interest, of course, was included in the price of the bill which was fittingly called a “bill of exchange.”⁴² In justifying this practice,

The merchants argued. . . that an exchange transaction was not a loan (*cambium non est mutuum*) but either a commutation of moneys (*permutatio*) or a buying and selling of foreign currency (*emptio venditio*). In other words, the exchange transaction was used to justify the credit transaction, and speculative profits on exchange served as a cloak to cover interest charges. Nevertheless, it was argued that *cambium* was not usurious, since there could be no usury where there was no loan.⁴³

The practical consequence of this attempt to circumvent the Church’s teaching on usury was to tie banking to exchange. As of the beginning of the 15th century, when the Medici founded their bank, the medieval paradigm on usury was still the official teaching of the Church, but one which was largely ignored through subterfuge in economic practice. Exchange became “the device par excellence” for circumventing the Church’s ban on usury. De Roover writes that “a good deal of hypocrisy is evident in all this, but it is a hypocrisy justified to a certain extent by economic development and practice. The genius of the Florentines in evading the

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obstacle was unending.”³⁴

Hypocrisy may be the compliment that vice pays to virtue, but it is never justified. Because the Florentines were more and more prone to use the complexities of commercial finance as a pretext for evading the Church’s prohibition on usury, the Church found it difficult to hold the line and make a clear distinction between genuine economic progress and sophisticated forms of fraud. “As late as 1427 the *Arte della Seta* still excluded relapsed usurers from membership. In 1415 even the Jews were forbidden to take interest or indulge in usurious practices on pain of the most severe punishment, even though canonical law could not be exercised against them,” but “by the middle of the 15th century there was no longer any express veto by the state on the taking of interest in Florence.”³⁵ Whig economic historians like to portray usury as an integral part of economic development, when in fact, usury was the main obstacle to economic development. Usury was essentially a form of magic which obviated the need for work and real thought on economic issues. The Church had conceded that shared risk could be the basis of any investment and that risk or a devalued currency gave legitimate title to interest, but the details needed to be worked out in a way that the bad faith involved in usurious practice made impossible.

Endnotes

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Chapter Six

St. Bernardine of Siena

On September 8, 1402, the same year in which the Medici founded their first wool factory, Bernardino Albizeschi was received as a novice and clothed in the Franciscan habit. Bernardino was born in 1380, two years after the Ciompi rebellion, in the same year Catherine of Siena, who tried to heal the Great Schism, died. Nine years later, St. Antonino of Florence and Cosimo de Medici were born.

In 1408, St. Bernardine of Siena was living in the small Franciscan convent in Capriola when he heard that St. Vincent Ferrer, the most famous preacher of his day, was passing through northern Italy on his way to Cisalpine Gaul. It was claimed that St. Vincent had the gift of tongues; he preached in a Spanish dialect, and yet everyone understood what he was saying. His preaching in Spain, as well as his support of, if not actual participation in, the Disputation of Tortosa, had led to massive conversions among the Jews. Like Cosimo de Medici, St. Vincent Ferrer backed an antipope who would be deposed by the Council of Constance, but this did nothing to diminish his fame, nor did it impede his ability to “terrify sinners by his wonderful discourses and bring them back to penance.”¹

St. Bernardine of Siena was 27 years old when he heard that St. Vincent Ferrer would be passing through Italy, and the news filled him with a desire to hear his sermons. And so Bernardino “set out by sea” from one of the Tuscan port cities for Genoa, “from whence he traveled inland, and arrived at Alessandria della Paglia, where St. Vincent was then preaching.”²

When the two men met, St. Bernardine was immediately recognized as a kindred spirit by St. Vincent, “who quickly detected the beauty of his character and desired him to stay to dine with him.”

The next morning . . . St. Vincent . . . made an unexpected digression and told all present that there stood amongst them a brother of the Minors, who would shortly become famous in all Italy, and would gather an abundant harvest in Christendom by his teaching and example. He said that although the brother was young and himself an old man, yet at a future time it would happen that this youth would be preferred in honor to himself by the Catholic Church.³

Since St. Vincent was returning to preach in France and Spain, he told Bernardino, “Go to preach in Lombardy.” Bernardino took St. Vincent Ferrer’s advice to heart:

Between 1419 and 1421 he walked, preaching almost daily over the greater part of Lombardy and through the gentle green plains and spacious towns of the Veneto, perhaps even visiting Lugano and Bellinzona, in what is now Switzerland,

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and then crossing the Alps by the pass which still bears his name—and after his return preaching on the shores of the Lake of Garda.⁴

According to St. Bernardine, “The three things most to be coveted in this world were great eloquence, deep scholarship, and a virtuous life—and that what is know as eloquence consists simply in three things: ‘to speak clearly, briefly and well. . . . But above all he must always be brave enough to speak the truth.’”⁵

St. Bernardine preached against civil war in Lombardy and against sodomy and avarice in Tuscany. He spoke the truth clearly, briefly and got into trouble as a result of his preaching. In 1426, Pope Martin V granted him permission to found four new houses, but one year later he was accused of inventing a new heresy, whereby “he induced people to commit idolatry by his exposition and adoration of certain strange and unknown tablets on which was carved the sun, and in the centre of the sun, strange marks of magic character and spells,”⁶ and he was forced to travel from Viterbo to Rome to defend himself against the charges. He also antagonized civil authorities by using the bonfire of the vanities 70 years before Savonarola in Florence:

Such was the feeling he had roused in the people against the vices of gambling and immoderate female vanity, that before his departure he burnt in the public square, before the governor of the town, draughts and chessmen, boards, cards, dice, ointments, ribbons, false hair, and all other instruments of vanity.⁷

He also antagonized the advocates of paganism by attacking both the neo-paganism of the humanists and the paleo-paganism whose remnants still existed in places like Arezzo, where a fountain outside the city had been in continuous use from pagan times as a site for “spells and idolatrous rites” which showed contempt for the Catholic faith.⁸ When Bernardine led a procession to the shrine to attack

with all the strength of his spirit this worship which the ignorant people were paying to the devil . . . the demons, conscious of the attack about to be made on them, suddenly raised so fierce a storm of wind and rain, that it seemed violent enough to convulse the whole earth, to tear up trees from their roots and to rend the venerable banner of the procession into a thousand pieces.⁹

The rain which the demons had sent to drive away the saint was suspended in mid-air by his prayers, and Bernardine then destroyed the pagan altar and fountain with a hammer and planted a cross which he had brought with him on top of the rubble.

St. Bernardine preached in all of the rich merchant-city-states of northern Italy. In 1422 he preached for the first time in Venice, where he excoriated usury. In Milan he did the same thing, after “one of his congregation came to ask him to descend to more earthly matters and to dwell upon the sin of usury—to which, he said, the Milanese were much addicted.”¹⁰ After making some inquiries, St. Bernardine learned that the man making the request “was the principal usurer in the place, who hoped that through the power of the friar’s preaching all his rivals would shut up shop and leave him with a monopoly of the business.”¹¹

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In Perugia, St. Bernardine was in the middle of a sermon against usury when he was transported in spirit to

the burial of a certain usurer in the neighborhood just then dead, and who, in punishment of his greedy extortions, had been carried by the devils, soul and body, into hell. The authorities of the place, anxious to ascertain the truth of the saint's words, dispatched a messenger to the place, and found that what Bernardine had said was quite true.¹²

In Padua, St. Bernardine complained that

the Jews of that city [Padua] enjoyed too much familiarity with Christians, by whom they were so far indulged as not to wear any distinguishing badge. Astonished at this abuse, which also prevailed in Verona and Vicenza, the Saint explained in one of his sermons the prohibitions of the canons regarding intercourse with Jews and stated that Christians could not put confidence in them, and he also persuaded the citizens by solid reasons to order the Jews to adopt a badge which marked them out from the rest of the population.¹³

In analyzing the situation in northern Italy, St. Bernardine concluded that there were three categories of the faithful: "Some have the life and not the doctrine. . . others have the doctrine but not the life," and finally there were a few who had both. "And of such is it said, 'He who shall both do and preach, the same shall be called great in the Kingdom of Heaven.'"¹⁴ This is another way of saying that doctrine, which is to say the essence of the Christian faith, still needed to be united with the Church's existence, or life, in northern Italy. That was, in effect, the project which the Mendicants set out to implement during the course of the 15th century. In economic terms, this meant applying the principles of the moral law, as viewed through the lens of the Church's usury prohibition, to financial practice in the world's most sophisticated commercial centers. Needless to say, this could not be done without the cooperation of the financiers, who were having doubts about the authority of the Church, not just because of scandals like the Great Schism, but also because the newly discovered classical texts which the humanists were translating into Latin seemed to contextualize Christian doctrine in a way the earlier scholastics would have found scandalous. The Plato which the Florentine humanists were discovering was not the Plato of the 5th century BC; it was Plato as conveyed by neoplatonism, which is to say, deeply corrupted by magic.

St. Bernardine also preached in his native Siena, which, while still one of the richest towns in Italy, had entered into a period of decline.¹⁵ The cause of that decline had uncanny parallels with the situation in Florence. Siena had a mint and her merchants were great experts in questions of exchange, but, as in Florence, the merchant oligarchy which ruled the city, exploited their workers. When the workers rebelled, the oligarchs banished them, which meant they left Siena and found employment with Siena's rival Florence. By grinding the worker, Siena had inadvertently

brought about the destruction of their own chief industry and had promoted the rise of their hated rivals. Thenceforth it was the Lamb of the Florentine Arte della Lana which predominated in the international wool-trade and the bankers of Florence who furnished loans to the Papal exchequers and to the thrones of England and France—while Siena became, as she has ever since remained, a little provincial town out of the main current of European affairs.¹⁶

When he arrived in Siena, St. Bernardine preached against sodomy and usury. The ladies of Siena were renowned for their beauty, but the men of Siena were insensible to their attractiveness because once “the devil enters the husband’s eyes, owing to the evil vice of sodomy, he cannot bear to look at her and she seems to him a worthless country wench.”¹⁷ The context which fostered this vice was capitalism, or as Luzzo put it: “the men’s addiction to sodomy” like female extravagance, were sins which “follow in the train of successful money-making: cupidity, competitiveness, self-indulgence, pride and avarice.”¹⁸

Since usury was theft, restitution was a requirement for forgiveness. Repentance alone was not enough, but to insure that his hearers were moved to repentance, St. Bernardine told “terrifying stories about the unrepentant miser’s last hours,” conjuring up “the writhing, impotent misers caught up in the merciless claws of monsters and then consigned with swollen purses on their bloated bellies to the flames.”¹⁹ The description of misers with purses on their bellies was a touch St. Bernardine lifted from Dante’s *Inferno*. When Dante comes to the seventh circle he finds usurers feasting their eyes on “pouches hanging from their necks”:

Ma io m'accorsi

Che dal collo a ciascun pendea una tasca

Ch'avea certo colore e certo segno

E quindi par che l'oro si pasca.²⁰

Usury had existed in Florence for centuries before the rise of the Medici, and as during the preeminence of the Medici Bank, it was a source of family pride. In fact, the identification of family and money had become so complete that “the usurers have their only identity in the coats-of-arms hanging from their necks, fastened loose enough so that they themselves can see them.”²¹

The perversion of family which gold and usury had accomplished among the Florentine oligarchs led Dante to meditate on the connection between sodomy and usury. This was not something that either Dante or St. Bernardine invented. It was part of the intellectual patrimony of the Middle Ages and found its most eloquent poetic expression in Dante’s *Inferno*. In describing the torments of the sodomites,

Dante draws on the biblical destruction of Sodom (and Gomorrah) by fire and brimstone (Genesis 19:24-5) and the medieval condemnations of citizens of Cahors (a city in southern France) for usury. Dante’s emotional reactions to the shades in the seventh circle range from neutral observation of the murderers and compassion for a suicide to respect for several Florentine sodomites and revulsion at the sight and behavior of the lewd usurers.²²

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Blasphemers were punished alongside sodomites and usurers in the seventh circle of Hell because of their violence, but sodomites and usurers suffered more torment because their violent actions were *contra naturam*, which is to say, directed against nature herself with a cold and calculating malice; they violated nature and therefore did serious harm to society in an especially violent way. Sodomites threatened the future existence of society by engaging in deliberately sterile intercourse, which eliminated all possibility of the offspring which constitute a society's future, but usurers damage it even more by doing harm to "industry and the economy," which are "the offspring of nature and therefore [the] grandchild of God."³ Sodomy denies society's access to the future by engaging in intercourse which cannot bring children into society, thereby ensuring its demise. Usury prohibits industry and brings the exchange of goods which is the heart of the economy, to a standstill by concentrating the wealth of the society, which belongs to that society as a whole, in the hands of the few, who concentrate that wealth further in their own hands by lending it out at usury. Usury is the financial equivalent of abortion because it stifles economic growth in the womb of society.

Sodomy is characterized by restless, perpetual motion because that sexual act can find no end or *telos*. Hence, sodomites are "punished by continual movement, reflective of their agitated lives." The main characteristic of usury, on the other hand, is immobility. Any society which tolerates usury as part of its economic life ends up freezing up and eventually immobile. This immobility is best symbolized by the "activity" of the usurer, whose idea of work is sitting immobile behind his counting table, sending his money out to "copulate," and do his work for him. Hence, usurers are punished by "sitting in place (and thereby undergoing precisely the punishment that the violent against nature dreaded)." Usurers "have caused money to race from hand to hand, but were themselves stationary, unmoved movers, hunched over their desks in the pursuit of gain."⁴ Hollander claims that usurers are "rendered unrecognizable by the burning (and by the degrading nature of their sin, which is a sin against God's 'grandchild,' industry, yet is also a sin against His child, nature, because it makes money 'copulate')." ⁵

Both sodomites and usurers sin against nature because they engage in sterile intercourse. The sterile intercourse of the homosexual is obvious enough, but usurers are punished for making money "copulate," which is to say, multiply unnaturally. Dante, in this regard, is giving a graphic gloss on Thomas Aquinas, who felt that "usury—like sodomy—"was contrary to nature because "it is in accordance with nature that money should increase from natural goods and not from money itself."⁶ Aquinas, of course, is simply expanding on Aristotle's claim that money is sterile.

Eventually, the order of St. Francis would propose a concrete alternative to Jewish pawnbrokers and their ruinous interest, when they collaborated on the founding of the *monti di pietà* in northern Italy. Usury not only victimized the poor by spreading lack of charity; it also destroyed business by making those

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with money reluctant to invest in risk-bearing productive ventures. As a result a vicious circle ensued. Lack of investment opportunities meant that people with money lent it out at interest to get a return. And the fact that people with money got involved in money lending meant that there were fewer and fewer investment opportunities for those willing to risk their capital for an honest return on their investment.

The same Franciscans who were in the forefront of efforts to found the *monti di pietà* were also in the forefront of efforts to expel the Jews. The reason is not difficult to understand. Because the *monte* charged a 5 percent fee, it was difficult to attract working capital from those who had money to invest. The Jews, on the other hand, because they charged the poor 43 1/3 percent per annum, could afford to pay a 20 percent return to investors and still make a handsome profit. By the beginning of the 15th century, the Franciscans, as a result, became "undisputed leaders of anti-Jewish propaganda."²⁷ In sermon 43, St. Bernardine of Siena claimed that:

Money is the vital warmth of a town. The usurers are leeches applied to gobble up delightedly a sick limb from which they draw the blood with insatiable ardor. When blood and warmth leave the extremities of the body to flow back to the heart it is a sign of death. But the danger is incomparably more imminent when the wealth of a town comes to be collected in the hands of the Jews. Then the warmth no longer circulates to the heart. As in the plague, it runs toward the gangrened part of the body, for every Jew when he is a lender is the deadly enemy of Christians.²⁸

The complaints of the Franciscans were mild in comparison to those of their secular counterparts. An anonymous chronicler from the year 1660 claimed that the Jews, because of their practice of usury, were:

eating away at the substance of the inhabitants. . . . The children of Israel primarily chose this particular profession out of all the professions because it gave them prosperity and tranquility. Seated on their fat cushions, they earned their living effortlessly and without difficulty, sure of lacking nothing and that is why nearly all of them chose this profession; and they did not know, they did not understand, that this was the cause of the envy and hatred born towards them: experience has not taught them that this was the cause of their misfortunes, even the greatest of them did not understand it, with the exception of R. Solomon Ibn Verga.²⁹

The preaching of St. Bernardine had a powerful effect on many prominent men. The great humanist Aeneas Sylvius Piccolomini, who came from a prominent banking family in Siena and eventually became Pope Pius II, claimed that the preaching of Bernardine so moved him that he almost became a Franciscan.³⁰

One of the men who heard his sermons and did enter Bernardine's order was St. John of Capistran, who joined the Franciscans in 1414. Together with Fra Giovanni della Marca, these two men would become Bernardino's closest disciples. Bernardino de Siena and Giovanni da Capistrano became the "main leaders"

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of the Franciscan crusade against usury and the privileges of the Jews:

In fact, the Franciscans' anti-Jewish agitation went on spreading. Inspired preachers such as Bernardino of Siena and particularly Giovanni da Capistrano were its main leaders. The impression emerges that their activity became a means of financial pressure in the hands of princes. This seems to have been the case in the Kingdom of Naples, where in May 1427 the fickle queen Joanna II gave Giovanni da Capistrano full powers to burn all the Jews' *condotti*.³¹

The Council of Constance began in the same year, 1414, in which St. John Capistran joined the Franciscans. The Council of Constance, which met for the first time on November 1, 1414, is remembered most for the fact that Jan Hus was lured there under a promise of safe conduct, put on trial, and then burned at the stake, unleashing revolution in Europe for the next 500 years.

The Council of Constance may have unleashed the Hussite rebellion in Bohemia, but its effect in Italy was almost totally positive. One of the "happy but quite fortuitous by-products" of the Council was the number of ancient manuscripts discovered by the famous humanist Poggio Bracciolini and other members of the Medici entourage to the council.³²

Eventually the Medici got involved in papal politics by lending their money to clerics who wanted to buy ecclesial offices. One of their first clients was Baldassare Cossa, who later became the antipope John XXIII. Cossa's enemies accused him of buying his cardinalate and later his papacy with Medici money.

On November 11, 1417, Cardinal Oddo Colonna was chosen pope and at once assumed full power under the title of Martin V over all of Christendom, bringing to an end the Great Schism. Martin V was not the Medici candidate for pope. The Medici, not suprisingly, backed their old client Baldassare Cossa. In fact, in 1412 Cosimo de Medici personally accompanied Cossa, the antipope John XXIII, to the Council of Constance.

In return for Medici financial services, Pope John had to pawn a "rich bejeweled miter," which Giovanni di Bicci held as security. The Medici Bank was no pawnshop, but when lending to prelates and princes it was always wise to get something valuable in return. In this instance, it did the Medicis no good. After Pope John was deposed, Martin V claimed the miter as his own, and to remain on good terms with the papacy, whose bankers they would become in spite of backing the wrong candidate, the Medicis swallowed hard and returned the miter. It is never wise to lend to princes, including princes of the Church like Oddo Colonna, because the prince is the classic borrower who is "too big to fail." This is a lesson the Medici would learn the hard way over the course of the 15th century.

Martin V initially favored the Spini family as his choice for papal bankers, but when their firm went bust in 1420, he had no choice but to turn to the Medici, who then controlled papal finances for the next 20 years. During that period, the 12,000 florins which the Medici earned per annum amounted to a 40 percent annual return on their original investment.³³ Between 1435 and 1450, the Medici

Bank profits amounted to 290,791 florins.

In January 1420 the Jews of Mantua met with Martin V, who was making his triumphal procession to Rome via Florence, and asked him to promulgate once again the traditional teaching of the Church on the Jews known as *Sicut Iudeis non*. "We have decided," the Jews proclaimed:

that at all events it is necessary to turn to our lord the pope, king of the Christians—may his life be long and his glory great—to intercede for our people and ask him for new assurances and privileges and confirmation of the old ones, according to the tradition of the popes; and that this must be done without delay. For this great expenditure is required, as all knowledgeable people will be well aware.³⁴

The Jews' petition had nothing to do with the actual text of *Sicut Iudeis non*, which had been proclaimed by the Church since the time of Gregory the Great and simply stated that Christians were not to harm Jews and that Jews were not to abuse the toleration which Christians showed them by undermining the faith or morals of the majority populations in the states which allowed them residence. The point of the Jews' petition was the "privileges," both old and new, whereby they were permitted to practice usury among the poor. These "privileges" were licenses to commit sin. They were worth a lot of money, and the Jews were willing to engage in "great expenditure," which is to say, bribe the pope to keep them.

Jewish and Christian tradition concur in saying that, as pope, Martin V was "a good thing for the Jews." The relationship was a good thing for the pope as well, if not spiritually, then financially. During the Middle Ages, the papacy was notorious for granting "privileges" to the Jews: "the first known 'absolution' . . . was granted by Boniface IX in 1401 to the duke of Mantua and sanctioned the conduct of the local Jewish leaders, mentioning '*foeneratoribus aliigeni*,' without specifying further."³⁵ Knowing how granting privileges to the Jews undermined both the social order and their own authority, the popes were reluctant to protect the Jewish money trade openly. But the legitimacy by default which long-accepted custom lent to bad practice led Martin V to cast caution aside and offer up principle on the altar of Rome's voracious need for money. Poliakov claims that "under Martin V (1417-31) the system [of openly granting the privilege of practicing usury by the Jews] took more definite shape, and in my opinion its real genesis can be dated from this pontificate."³⁶ Poliakov also claims that Martin V made the change for financial and not theological reasons, because after the Council of Constance, the church "was obliged to look for new resources and to derive the greater part of them from Italian revenues."³⁷

If the task of the 15th century was to align doctrine and life to create a science of economics congruent with Christian principle, Martin V did nothing to advance that end. In fact, he used the Church's traditional teaching on the Jews, which had nothing to do with money, to protect the Jewish money trade.³⁸ It was under Martin V that the relationship between the Jewish money trade and the

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papacy “found its definitive form.”³⁹ If “the medieval papacy’s benevolent interest in the Jews corresponded to a dual consideration, simultaneously theological and financial,” it is no exaggeration to say that “financial considerations persistently prevailed over theological considerations. . . . The documents for the pontificate of Martin V . . . confirm. . . . that the pope’s good intentions were bought at the price of money.”⁴⁰

The election of Martin V may have been good for the Jews, but good relations between Martin V and the Jews constituted a mixed blessing for the Church and Italy. For the pope it meant access to money, for the *popolo minuto* of Italy it meant further impoverishment because under the cover of *Sicut Iudeis non*, the Jews were granted more “privileges” of the sort that both St. Bernardine of Siena and St. John Capistran criticized. What followed was a theological tug-of-war between the pope and the Mendicants. The pope would grant “privileges”; the Mendicants would object; the pope would revoke the privileges, only to grant them again for a financial consideration once the furor died down.

On January 10, 1422, the Jew Elia di Angelo lent the Apostolic Chamber 300 florins, and within 40 days of the loan, Pope Martin V issued a new bull in favor of the Jews which:

excommunicated ipso jure “preachers of the word of God, mendicants or those of other orders” who stirred up the people against the Jews, as well as the inquisitors who acted in connivance with them. However, this bull was revoked as “extortionate” on February 1 of the following year, without it being exactly known why; perhaps on the insistence of the Franciscan Inquisitor, Giovanni da Capistrano, as the latter let it be understood.⁴¹

Martin V’s willingness to defend Jewish interests caused a reaction during the papacy of his successors Eugenius IV (1431-1447) and Nicholas V (1447-1455), who placed the Jews under interdict and entrusted its enforcement to St. John Capistran. Christians were enjoined to break off all social and commercial relationships with Jews. Yet even when reacting to the laxity of previous popes, popes like Nicholas V were also willing to grant concessions for financial considerations. In fact, Poliakov claims that “the sole purpose behind the renewal of the ‘anti-Jewish’ bull of Nicholas V in May 1456 could have been only to accelerate payments by the Jews.”⁴²

The papacy’s willingness to extend the privileges of the Jews was a small cloud, which would grow larger as the century progressed, but at the time of Martin’s election as pope, the sky was otherwise sunny. The election of Martin V in 1417 healed the Great Schism, and a moment of optimism followed, as the Church sought to regain the cultural and intellectual initiative she had lost during the dark days of the 14th century.

St. Bernardine came into prominence as an itinerant preacher just as Europe was settling down after a long nightmare of plague, schism, worker rebellions, depositions and civil wars. Hence, it should come as no surprise that “the writ-

ings of the Saint are filled with such optimism.” The writings of the Dominican St. Antonino of Florence, nine years Bernardino’s junior, also manifested the wave of optimism unleashed by the healing of the Great Schism. In 1418, the Dominicans returned to Fiesole, and Fra Angelico “began at once to display his talents in the decoration of Church and Priory.” The government of Florence, says Guicciardini, was the wisest, most glorious, and happiest that ever the city had seen.⁴³ Vespasiano Bisticci concurs: “In that time, from 1422 to 1433, the City of Florence was in a most blissful state, abounding with excellent men in every faculty, and it was full of admirable citizens.”⁴⁴

One manifestation of this optimism was a sense that the best minds of this era could make sense of the usury/economics question. In 1420 Lorenzo Ridolfi brought out his *Tractatus* on contracts. Ridolfi was a friend of the Medicis and his book had an influence on St. Antonino of Florence, who regarded it as “a gospel,” in dealing with the thorny economic questions of the age.⁴⁵

Another sign of this optimism was a series of sermons which St. Bernardine preached in the Piazza del Campo, the public square in Siena, in 1427. The full text of the sermons (including asides such as “chase away that dog”) were transcribed by a cloth shearman (*cimatore*), Benedetto di Maestro Bartolomeo, who attended the sermons in the morning and then transcribed his notes in the afternoon while his memory was fresh.⁴⁶

St. Bernardine considered any interest on a loan usurious:

Usury was any excess whatsoever above the principle of a *mutuum* or loan, exacted by reason of the loan itself, either according to contract or without previous agreement. . . it did not matter whether the rate was high or low, excessive or moderate; anything beyond the principle of a loan was usury. Neither did the purpose of the loan matter in the least and it made no difference whether money was lent to a well to do business man who intended to invest it in a profitable venture or to a poor devil who was without a job and had a sick wife and half-a-dozen hungry children. It was John Calvin who first made such a distinction between business loans on which it was all right to take interest and distress loans which should be made free of charge, or, better, replaced by outright gifts. . . . It was clearly wicked to extract a tribute from the poor man, crushed by adversity.⁴⁷

Usury occurred only in connection with a loan and not in connection with any other contract. This is so essential that St. Bernardine repeats it several times in the same chapter: “*Usuram solum in mutuo cadit*” (usury is found only in a loan).

Usury applied only to consumable goods of which the use could not be separated from the substance or, in different words, which could not be used without being consumed. Fungible goods like this could be weighed (grain), measured (wine) or numbered (money). The lender did not expect the borrower to return the very thing that was lent but an equal quantity of the same species. To expect more was usury, whether it was applied to money or any other fungible good.⁴⁸

St. Bernardine was in complete agreement with Aristotle and Aquinas on

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the sterility of money. He came to this conclusion largely through reading Johannes Andreae, who also claimed ownership passes in a loan, another classical argument against usury. St. Bernardine added a number of variations on the traditional arguments by claiming that 1) usury is the selling of money, which is naturally non-vendible; 2) it is the unjust getting of a certain gain in return for giving an uncertain one; 3) it is the selling of his own industry to the borrower; 4) it is against charity.⁴⁹ St. Bernardine believed that the community should

function like the human organism, in which the stomach keeps what food it needs and distributes the rest to the other members of the body: "Thus, as we are all one body in Christ Jesus, a Christian having money useless to himself is held from necessity to communicate it to his neighbor who can make it useful for himself."⁵⁰

In sermon 43, St. Bernardine claimed that the wealth of the Italian principalities was ending up in the coffers of Jewish pawnbrokers. St. Bernardine believed that Mantua was a social organism, he also believed that concentration of wealth was tantamount to death because when money, a medium of exchange analogous to blood, with its natural warmth, "leaves the extremities and surface to flow towards the heart and viscera," it brings with that motion the "danger of 'imminent death' to the entire organism."

Once Martin V established the special relationship between the Holy See and the Jewish bankers, the lines were drawn in a conflict between the popes and the Mendicants which would last for the rest of the century and which would find its culmination in Pope Alexander VI's complicity in the death of Savonarola. The rise of usury was a manifestation of the moral decline which had afflicted the Church during the second half of the 14th century. Now that the Church was unified again, it was time to deal with the usury question. The main theological issue was "Is usury necessary?" Howell claims that Bernardino "was preaching doctrine which, if practiced, would soon bring all commerce to an end."⁵¹ In saying this he is echoing the Jews, who claimed that "the custom of entering into agreements with Jewish usurers was spreading throughout Italy because of the vast needs of the people."⁵²

The Mendicants, on the other hand, far from admitting that usury was necessary to society ("as necessary as its bakers") claimed that the taking of interest was intrinsically evil. In his *De bono mortis*, St. Ambrose said unequivocally that "if someone takes usury, he commits robbery, he shall not live."⁵³ Gratian, one of the most influential writers of the Middle Ages, agreed, quoting the line verbatim.⁵⁴ St. Raymond of Penafort claimed that "usury differs little if not at all from robbery."⁵⁵

If usury is intrinsically evil, how then could the pope (or the prince with the pope's permission) grant licenses to Jews to exact usury? The answer, according to the Mendicants, is that he couldn't. "Usury was an evil that no reason could transform into a good; *a peccatum in se and not a peccatum secundum quid*. . . . If

the pope does not have permission to sin, he cannot grant it to others.”⁵⁶

To those, like Mario Sanuto, who said that Jews “were at least as necessary to a country as its bakers,” Alessandro de Nevo (? – 1486) responded by saying that “as usury was a mortal sin, and a sin in itself, no one had the power to grant dispensations in respect of it, since God had not given either Peter or his successors permission to sin.”

De Nevo tried to show that the permission had been revoked by the old law itself. De Nevo also uses another argument: if Moses allowed Jews to lend to foreigners, he did so as the lesser evil and because he was not sufficiently powerful to decree and enforce a total prohibition. The Christian princes now possess this power. They must therefore utilize it.

In the second half of the 15th century, de Nevo’s *Consilia* became the principal arsenal from which the Italian Franciscans drew their theoretical anti-Jewish arguments.⁵⁷

Behind these practical questions loomed bigger theological issues. Is usury necessary? Were Jews “as necessary to a country as its bakers?” The usury question became in effect a referendum on the providence of God. The Franciscans countered Jewish propaganda and papal practice by claiming that “the man who did not firmly believe that the human race could dispense with overt usury was doubting the solicitude of God by doing so, and was therefore uttering a blasphemy.”

Beyond that, St. Bernardine was claiming that recourse to usury acted as a brake on both charity and economic development. St. Bernardine claimed that

those holding this belief—and he implies that it is common—commit a sin of blasphemy, for they say, in effect, that God has placed them in an impossible precept. He recognizes, however, that what has led people into this error is that rarely is there found anyone who will lend gratuitously, yet always, apparently, there is a great need for credit. . . . On the one hand, he declares, the real reason why few will lend gratuitously is the general custom of taking usury. But a vicious habit does not excuse itself. Abolish the custom, and you will find lenders ready to charge nothing.

St. Bernardine also denounced voluntary government loans, including “the dealings in the Government securities of Venice, Florence, and Genoa, to which he devotes a whole sermon (No. 41).” He also objected to a very popular institution which had been founded in Florence in 1425, the *Monte delle doti*, which enabled parents to make provisions for their daughters’ marriages by lending money to the State which would be repaid with interest, 15 years later as the girl’s dowry. He claimed that the sin involved in the *Monte delle Doti* was “worse than those of a Jew, lending with his red carpet” because the contract was simultaneously gambling and usury.

In joining this controversy, St. Bernardine came down clearly on the side of his fellow Mendicants. Like Dante, he thought that usury was a direct insult to

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God's goodness. "*Usura offende la divina bontade*." For over two centuries nothing had been too bad to believe of the moneylender: he sat all day in the marketplace, plain for all to see, with this moneybag and his great ledger on a table before him, demanding an interest of 20 and sometimes 40 percent and, as a pledge, a poor man's patched tunic, or a widow's cloak or bed. He was to the poor the very personification of cruelty and avarice—and if he was a Jew, an unbeliever besides. In Siena, he was forbidden to live "in the most public or beautiful parts of the city" (i.e. "in any house or palazzo adjoining the Campo. . . or on the streets adjoining it") because his presence was a direct insult to the Patron of the city, the Virgin Mary; and he was denied, even if he was a Christian, the Sacraments and burial in holy ground—a ruling of which Fra Bernardino approved. He even confessed that though he could make friends with the ruthless soldiers of fortune and chat with thieves and murderers in prison, he could not bring himself to eat or drink with a Jew, saying that "as to general love, we may love them, but as to a particular love, we cannot."⁵⁸

Fra Bernardino's picture of the usurer is that of a man who, having made an idol of his florins, has betrayed God. "He believes in nothing that lies above his roof." "He learns his evil trade from his evil father, and knowing no other, practices it all his life, and dies in it, and so finds damnation." While he is alive, he is like a barber, "who shaves a man so close that his blood gushes out"; he grinds the bones of the poor, "sleeping and waking, eating and drinking, always making his money work, and grinding his partner's bones;" and when death comes, he is like a swine, "who in all his life has done nothing but damage. . . and when he dies, everyone is glad."⁵⁹

"Alexander of Hales says," said Fra Bernardino, "that if even the Apostle St. Peter should return to earth, he could not render it licit to take even 1% and you say it is licit to take 8 or 10." In most Italian cities, the problem of low end credit was solved by granting licenses to Jews, but St. Bernardine declared this practice "wholly indefensible."⁶⁰

In Assisi in 1425, Saint Bernardine attacked the notion that "a city cannot exist without a manifest usurer," even if the majority—Jew and non-Jew alike—affirmed that proposition, as the Council of the Hundred in Florence had, when it 1476 they claimed that the subsistence of the poor depended on getting loans from the Jews. "Deprived of this source of credit, these humble people would be dependent on Christian lenders—which would bring ruin upon them."

St. Bernardine categorically rejected this reasoning on theological grounds, claiming "that no temporal evil or inconvenience may be averted by a violation of God's law" (Opera, II, 258). De Roover claims that St. Bernardine's magnum opus, *De Contractibus et Usuris* modified traditional and stricter Church teaching to allow for economic exchange. But "to conclude [that] business is perfectly legitimate, if it performs a useful social function by transporting, distributing or manufacturing goods [and] making profits should only be incidental and not the

primary purpose or justification of business activity” is far from accepting the legitimacy of usury. Bernardino clearly rejected the pragmatist position. There was no necessity involved in the sin of usury. Money could be raised both for investment purposes (by sharing risk) and for the poor (by charity) without recourse to usury.

On the supply side, the possibility of usurious gain inhibits both charity and productive investment, i.e., investment sharing risk. St. Bernardine claims that “there really might be far more cash available in nonusurious ways than the people think.” On the demand side, St. Bernardine analyzes the problem by breaking it down into five classes of borrowers:

- 1) the really needy poor; 2) gamblers or men of ill character seeking money for vice; 3) avaricious tradesmen and merchants who seek “to accumulate riches” and borrow usuriously, particularly from widows; 4) usurers who borrow to lend at higher rates; 5) those who need money for a short time because of a temporary emergency.⁶¹

He then attacks the problem by dealing with each class individually. “Classes 2, 3, and 4 have no rational excuse for borrowing. Class 1 is only made poorer by borrowing; it needs alms not loans. Class 5 has the most justification for seeking credit, but it is gradually and insensibly impoverished by the payment of usuries, and such borrowers would save themselves much real misery if they sacrificed their property when they first needed money and avoided entanglement with the usurers. Often the pledges lost by such borrowers far exceed the value of the loan they received. Thus, the demand for money at usury is far greater than it should be.” St. Bernardine concludes that there is no rational basis for the belief that usury is essential either to obtain a supply of credit or to meet the lawful demands for cash among the poor. Usury is unnecessary and of benefit to no one group of persons, and if all lived virtuously there would be no need of it.

It has a disastrous effect on the city and on the social organism. The public usurers are usually foreigners, often Jews, and they drain the wealth of the city into other hands. Again, usury concentrates the money of the community into the hands of a few, just as if all the blood in a man’s body ran to his heart and left his other organs depleted. Finally, the practice of usury brings the just chastisement of God upon the city, and invites the Four Horsemen of the Apocalypse.⁶²

Usury enervates charity; it is fount of self-love, the mother of deception, a worse evil than robbery, for more cunning and constant; it is “the murder of the poor”; it makes one cruel to one’s kinsmen; it is a contagious disease, for now all men are usurers and usurers are honored by the city, take their places in the councils of the great, and are even burdened by the Church. Moreover, usury entangles the souls of many who are not themselves formal usurers. This is the first time such a list has been drawn up to show the manifold consequences of usury.

The poor borrow out of sheer necessity, and St. Bernardine suggested charity as the best way of eliminating usury as the solution to short term necessity among

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the poor. Higher end finance was a different matter. The businessman borrowed money to make a profit. The real issue in high-end finance was, therefore, the allocation of risk.

Peter Bernstein claims that “the serious study of risk began during the Renaissance, when people broke loose from the constraints of the past and subjected long-held beliefs to open challenge.”⁶³ He then immediately undermines confidence in his judgment when he claims that the Renaissance was “in full flower”⁶⁴ in 1654. Some would claim that the Renaissance had ended roughly 160 years before 1654, when Botticelli, at Savonarola’s urging tossed his paintings on the bonfire of the vanities. Before long, it becomes clear that Bernstein views the issue of risk through the lens of Whig theory, in particular the Whig view of economic history, as when he claims that “the Renaissance and the Protestant Reformation would set the scene for the mastery of risk as mysticism yielded to science and logic.”⁶⁵

But magic, not science, was “in full flower” during the Renaissance. Bernstein turns mastering risk into a promethean project. “Like Prometheus, they defied the gods and probed the darkness in search of the light that converted the future from an enemy into an opportunity,”⁶⁶ which “weakened the dominance of the Catholic Church.” After lurching from one whiggish cliché, e.g.,

By eliminating the confessional, [the Reformation] warned people that henceforth they would have to walk on their own two feet and would have to take responsibility for the consequences of their decisions.

to another, e.g.,

The concepts of thrift and abstinence that characterized the Protestant ethic evidenced the growing importance of the future relative to the present.⁶⁷

Bernstein finally gets it right when he claims that “the inevitable result was capitalism.”⁶⁸ Unfortunately, he gets it wrong when he describes capitalism as “the epitome of risk-taking.”⁶⁹ Capitalism is state-sponsored usury, and, as such, it is not the epitome but, rather, the antithesis of risk taking. Those who possess wealth want to enjoy and increase their wealth without incurring any risk of losing it. The simplest way to increase wealth without incurring risk is to lend it out at usury because the borrower, by the terms of the loan, agrees to assume the entire burden of risk. He must pay back every penny that he borrowed, plus interest, whether his business venture succeeds or not. The Church considered this an unfair allotment of risk and condemned it as such. The Catholic Church circumscribed the ability of the wealthy to eliminate risk by condemning usury, which placed the entire burden of risk on the borrower, as sinful.

Distinctions like this were alien to the world of antiquity. The classical position is much more straight-forward and is epitomized in the dictum “*Res tantum valet quantum vendi potest* (a thing is worth as much as it can be sold for)”⁷⁰ The classical position is identical to the modern libertarian position, and is articulated

by Seneca when he writes, "What difference does it make what they are really worth, since the seller and the buyer have agreed upon their price? . . . they are worth only the highest price at which they can be sold."⁷¹

According to Langholm, "*Res tantum valet quantum vendi potest*. . . is precisely how value in exchange was. . . to be defined in [both] classical and neoclassical economics."⁷² The term "classical" when applied to economics is particularly apt. It denotes a return to the models of antiquity. In this, it is antithetical to the Christian tradition which added an element of sophistication to economic exchange by introducing the concept of "justice" and its opposite "coercion." Terms alien to the classical concept of exchange, which "legitimizes an unlimited use of economic power."⁷³

During the Christian era, the pagan concept of the absolute contract was superseded by the idea that a man could agree to a price and still be coerced by his own need. As a result, "The question of freedom then became the question of the state of the will of a person who consents to certain terms of exchange because of need."⁷⁴ Under the Christian dispensation, any economic transaction needed to be evaluated in light of both persons involved, and the agreement of the weaker party to the terms of the stronger was no longer the end of the story. Economics became not a question of agreement or *pacis*, a forced peace; it became "a question. . . of one party to the exchange taking advantage of the other party's need."⁷⁵ Neither the hungry nor the sick exercised "freedom" when they agreed to pay the exorbitant price a monopolist charged for food or medicine. The weaker party consented to the stronger with a "mixed will."

The concept of mixed will was found in Aristotle when he described the dilemma of a captain who is forced to throw his cargo overboard during a storm to save his ship. Christian thinkers developed this idea to cover instances of unjust wages and unjust prices where the weaker party consented to the coercion of the stronger with a "mixed will." An anonymous commentator on the *Politics* states that the weaker party consents to an agreement not to his advantage "not voluntarily *simpliciter*, but like one who throws merchandise into the sea."⁷⁶ This causes Langholm to comment: "The persistence of the Aristotelian analogy is remarkable. Numerous authors, condemning usury, compare the borrower's situation to that of the captain who jettisons cargo."⁷⁷ Jean Gerson claims that consent is not absolute but "conditional and *secundum quid* as when cargo is jettisoned or extorted by fear of death, not induced by fraud, for ignorance causes involuntariness in full or in part."⁷⁸ Pope Innocent V claims that the man who agrees to a usurious loan does so with a mixed will and is "like him who throws merchandise into the sea."⁷⁹

A thing is not worth what it can only be sold for to someone in need, for need is a form of compulsion. Henry of Ghent claims:

In accordance with the equity of natural justice, a thing ought to be sold and bought for as much as it is worth, and if someone wittingly sells it for more than

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it is worth at the time and place, or buys it for less, this is unequal and it is unjust even if he is permitted to do so and his neighbor, which whom he deals does not oppose it, either because he does not know or because need compels him to accept what is unjust.⁸⁰

The idea that need was “not to be exploited in buying and selling, because the needy consent against their true will” led to a Christian modification of the classical formula *Res tantum valet quantum vendi potest*. The new formula was “a thing is worth as much as it can be sold for, that is, commonly and in a public place, to many people over several days.”⁸¹

This was a true advance in the understanding of economic science, and it could have led to the concept of a just wage, which would have contributed in turn to a resolution of the injustices which led to the Ciompi rebellion, but the Florentine oligarchs, in spite of the preaching of Sts. Bernardine and Antonino, didn't pursue the issue. They sought the solution to their problem elsewhere, far outside the Church, among Jews and pagans, not in the science of economics but in the magic of chrematistics. The cause of this failure was humanism, because the rediscovery of classical texts led to a repudiation of the Christian position on the just price and the just wage. Later scholastics like Peter Olivi decided to forego nascent Christian economics in favor of “the libertarian take-it-or-leave-it proposition” when he wrote:

No law compels me to give or exchange my goods except at a price agreeable to me and established by me in advance, just as, on the other hand, no one is obliged to buy another's goods above a price which pleases him. If therefore a contract of selling and buying is purely voluntary, it follows that price determination of goods in exchange will be voluntary as well. . . according to the common saying: “A thing is worth as much as it can be sold for.”⁸²

The breakdown of the medieval paradigm at the hands of the later Spanish scholastics led to the depersonalization of the market which found its culmination in the Manchester School and ideas like “the iron law of wages,” but

this modern mechanistic conception of the market as a suprapersonal force setting the terms to which an individual exchanger must submit was foreign to the medieval masters. Their frame of reference was a moral universe that obliged any buyer or seller to act for the common good and agree to terms of exchange accordingly, regardless of the advantage granted him by the forces of the market. This means that the common estimate of the just price could not refer indiscriminately to whatever price might be obtainable under existent market conditions.⁸³

Once the later scholastics adopted the classical paradigms which the humanists discovered in ancient texts, it was only a matter of time before the market, which was first seen as limiting individual greed, became a justification for it by becoming “self-regulating.” At this point the Church again lost control of the debate. The Church's solution to the investment needs of a capitalist society is shared risk of the sort that comes about when an investor buys stock in a company. The

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issue was risk, but not as Bernstein understands it. The scholastics did not object to someone investing money profitably by entering into a partnership, provided he shared in the losses as well as in the profits. The investor can licitly get a return on his investment only if the venture succeeds and turns a profit. In instances like this, the Church places no limits on the returns as long as they are a share in the profits, which is to say in the success of the venture. All of the investment needs of the Florentine capitalists could have been met by investment rather than borrowing money at interest, which unfairly placed the total burden on the borrower. Only when the lending of money involved also sharing in the risks undertaken by the borrower was it not reckoned to be usury and allowed to share in the profits.

The ancient Hebrews knew that usury was destructive, and their scriptures prohibited it, but in general no such restrictions were placed on the man with money to lend in the ancient world. The strong dictated terms to the weak when it came to lending money, hiring workers or buying products. There was no ban on usury, and no such thing as a just price or a just wage. All of these were inventions of the Germanic-Christian civilization which succeeded the Roman Empire after it collapsed.

The man with money to lend is quite naturally going to see these prohibitions as limitations on his freedom, and he is quite naturally going to promote a society in which freedom trumps both morals and religion. This is precisely the situation in which the Medici found themselves toward the end of the third decade of the 15th century. The Florentine oligarchs could have worked with people like St. Bernardine of Siena, and they could have come up with a genuine science of economics, which is to say, one compatible with faith and morals, but at the very moment they needed to work with the Church, the Church had reached an unprecedented state of corruption. As if that weren't bad enough, this moment corresponded to a re-awakening of interest in texts and models from classical antiquity, an avenue which seemed more promising in granting the oligarchs what they wanted.

In a letter he wrote to Marsilio Ficino, urging him to join him at Careggio, the Medici country estate, Cosimo wrote, "*Nihil enim ardentius cupio, quam quae via commodius ad felicitatem ducat cognoscere.*"⁸⁴

And what was this *via commodius*, this "easy way?" It was paganism. The development of economic science was thwarted not by an obscurantist Church, but by moral decay, by magic, by humanism, by the blindness that gold regularly generates in a capitalist society that sees money as something other than sterile, and by Cosimo's ardent desire to return to the vomit of pagan economics.

Endnotes

- 1 Armadio Maria Luzzo, *The Life of S. Bernardine of Siena* (London: R. Washbourne, 1873), p. 54.
- 2 Luzzo, p. 54.
- 3 Luzzo, p. 55.
- 4 Luzzo, p. 32.
- 5 Luzzo, p.35, p. 41.
- 6 Luzzo, p. 151.
- 7 Luzzo, p. 133.
- 8 Luzzo, p. 135.
- 9 Luzzo, p. 136.
- 10 Luzzo, p. 30.
- 11 Ibid.
- 12 Luzzo, p. 209.
- 13 Luzzo, p. 246.
- 14 Luzzo, p. 40.
- 15 Luzzo, p.78.
- 16 Iris Origo, *The World of San Bernardino* (New York: Harcourt, Brace, & World, 1962), p. 78.
- 17 Origo, p. 53.
- 18 Origo, p. 53.
- 19 Origo, p. 53.
- 20 Dante Alighieri, *Inferno*, translated by Robert and Jean Hollander, (New York, Anchor Books, 2002), pp. 314-5,
but I could see
the pouches hanging from their necks
were different colors, each with its coat of arms.
On these they seemed to feast their eyes.
- 21 Hollander, p. 324.
- 22 <http://danteworlds.laits.utexas.edu/circle7.html>
- 23 Ibid.
- 24 Hollander p. 324.
- 25 Ibid.
- 26 <http://danteworlds.laits.utexas.edu/circle7.html>
- 27 Leon Poliakov, *Jewish Bankers and the Holy See: From the 13th to the 17th century* (London: Routledge & Kegan Paul, 1977), p. 141.
- 28 Poliakov, p. 142.
- 29 Poliakov, p. 146.
- 30 Luzzo, p. 132.
- 31 Poliakov, p. 75.
- 32 Poliakov, p. 99.
- 33 Ibid.

- 34 Poliakov, p. 74.
- 35 Poliakov, p. 72.
- 36 Ibid.
- 37 Ibid.
- 38 Ibid.
- 39 Ibid.
- 40 Polikaov, p. 76.
- 41 Poliakov. pp. 74-5.
- 42 Poliakov, p. 77.
- 43 Francesco Guicciardini, *The History of Florence*, Translated by Mario Domandi, (New York: Harper & Row, 1970), pp. 32-3.
- 44 Ibid.
- 45 n1 Lorenzo Ridolfi wrote a *Tractatus . . . de contractibus*. This treatise dates from the about the first quarter of the Quattrocento and although, or perhaps just because, it was written by a practical man, a business friend and even a partner of the Medici, its influence was decisive for the Canonical economists and especially for the treatise of the the Archbishop of Florence, St. Antonino. Vespasiano tells us that the Archbishop looked upon Ridolfi's treatise as a gospel. The following phrases occur in it: "Cambia sicca; hic nulla committitur usura; nam nulla intervenit superabundantia (p. 37); de securitatibus et cautionibus: quid dicamus? Credo tutius abstinere (p. 38). Contractus pignatori. Non usura est. Ratio: videmus enim quotidie et licite talem celebrari contractum (p. 44). And "experientia doceat, ut sciunt experti."
- 46 Raymond de Roover, *San Bernardino of Siena and Sant'Antonino of Florence: The Two Great Economic Thinkers of the Middle Ages* (Boston: Baker Library, Harvard Graduate School of Business Administration, 1967), p. 3.
- 47 de Roover, *San Bernardino*, p. 28.
- 48 de Roover, *San Bernardino*, p. 29.
- 49 John T. Noonan, Jr., *The Scholastic Analysis of Usury* (Cambridge, MA: Harvard University Press, 1957), p. 71.
- 50 Noonan, p. 73.
- 51 A.G. Ferrers Howell, *S. Bernardino of Siena* (London: Methuen, 1913), p. 259.
- 52 Ibid.
- 53 Odd Langholm, *The Legacy of Scholasticism in Economic Thought* (Cambridge: Cambridge University Press 1998), p. 59.
- 54 Langholm p. 60.
- 55 Ibid.
- 56 Langholm, p. 33.
- 57 Langholm, p. 34.
- 58 Origo, p. 94.
- 59 Origo, pp. 94-5.

60 Origo, p. 90.

61 Origo, p. 74.

62 Ibid.

63 Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk* (New York: John Wiley & Sons, Inc., 1998), p. 3.

64 Ibid.

65 Bernstein, *Risk*, p. 20.

66 Bernstein, *Risk*, p. 1.

67 Bernstein, *Risk*, p. 21.

68 Ibid.

69 Ibid.

70 Langholm, p. 78.

71 Ibid.

72 Ibid.

73 Langholm, p. 79.

74 Langholm, p. vii.

75 Ibid.

76 Langholm, p. 64.

77 Langholm, p. 65.

78 Langholm, p. 81.

79 Langholm, p. 62.

80 Langholm, p. 82.

81 Ibid. This is similar to the position of Albert the Great, who wrote, "Iustum autem pretium est, quod secundum aestimationem fori illius temporis potest valere res vendita"

82 Langholm, p. 82.

83 Langholm, p. 84.

84 Curt S. Gutkind, *Cosimo De' Medici: Pater Patriae, 1389-1464* (Oxford: At the Clarendon Press, 1938), p. 243.

Chapter Seven

Cosimo de Medici

Giovanni di Bicci de Medici, founder of the Medici Bank and Cosimo de Medici's father, died on February 10, 1429. He died intestate because in making out a will "he would have denounced himself as a usurer and might have caused considerable trouble for his heirs."¹ This practice had become a Medici family tradition, which Cosimo, Giovanni's son would continue. Giovanni di Bicci de Medici had received the fortune which allowed him to found the Medici Bank from his father, who had in turn inherited his money as well. The tradition went all the way back to the original Buiamonte de' Bicci, a "notorious Florentine banker whom Dante in his *Inferno* had set in the desert of burning sand and rain of fire, sitting with his eyes fixed on the purse hanging around his neck—a usurer punished as one who has done violence to Nature and Art."²

After the death of his father, Cosimo became head of the Medici Bank. The Medici banking house would become the largest banking house of its time, but it wasn't the first bank founded in Florence, nor was it the largest in that city's history. That distinction goes to the Bardi and Peruzzi banks of the 14th century. The Medici Bank arrived late on the scene. The Medici Bank was important because the money it generated was the foundation for a magnificent outburst of cultural expression known as the Renaissance, "of one of the great eras of European economic and cultural thought."³

The brilliance of the Medici era in Florence has blinded many to the fact that by the middle of 15th century the bank was in an almost continuous state of decline, something that became apparent after the death of Cosimo in 1464. There were ominous precedents for bank failure in Florence, but the omens were ignored. Both the Bardi and Peruzzi banks failed in the 1340s shortly before the Black death because of the unfortunate habit of lending to princes, notably King Edward III of England, who owed them "the value of a realm" when they went under.⁴

After the Bardi and Peruzzi banks went bust, their position as premier banking firms was superseded by the Alberti bank, which became the banker to the Catholic Church, until the firm split over "internecine quarrels" and the clan was banished from Florence in 1382, clearing the way for the rise of the most famous of all Florentine banking families, the Medici. The Medicis were very aware that their business, banking, and their creed, Catholicism, were at odds. Since usury was considered theft by the Church, it demanded restitution if the sinner wanted to obtain absolution. By not making out wills, the patriarchs of the Medici family protected the family wealth against "accusations of usury and demands for restitution of ill-gotten gains."⁵ Cosimo's grandson, Lorenzo the Magnificent, used the contradiction as justification for his youthful rebellion against the Church.

Barren Metal

Cosimo, however, was plagued with guilt.

Cosimo had his own reasons, which were not merely aesthetic, for seeking compromise with Christian beliefs. In addition to having inherited a fortune based on ill-gotten gains, Cosimo fathered an illegitimate child by a slave girl, which he reared in his own house along with his legitimate children.⁶

When Cosimo took over the leadership of the Medici Bank, the Church stood at the peak of her temporal power, a power she was not shy to exercise in ways that modern prelates would find embarrassingly proactive. During that time, the Church's prohibition, as articulated by the Council of Lyon, which "ordained in 1273 that Christian burial should be refused to public usurers as long as restitution was not made," was in full force. As a result, "Many a banker had an uneasy conscience about his unholy deals."⁷

Gutkind claims that when Cosimo took over the Medici Bank:

The patriarchal conception that money is not fit either by nature or divine law to bear fruit had passed away. Canonists with careful reticence and civil magistrates often with daring initiative took infinite pains to detach the word *usura* from the conception of interest and to lift the veto on earning interest once and for all by *mutuo caritativo di consumo*.⁸

The ban on usury and the demand for restitution may have weakened by the time Cosimo took over the family business, but it had not disappeared. As a result, Cosimo was in a bind:

This ecclesiastical veto had taken deep root in moral thought. But since it obviously went against the very principles and development of economics, it led to grievous spiritual conflicts in the life of the individual, and to the attempt to free one's conscience by formal evasion to escape the just punishment in the hereafter and still make one's profits in this world.⁹

Cosimo, instead, tried to have his cake and eat it too. His relations with St. Antonino might have helped him develop a *modus vivendi*, but instead he worked out a deal with his friend and protégé Pope Eugenius IV, who granted him a bull, "which allowed him to atone for his covetousness by endowing the monastery of San Marco in Florence."¹⁰ Cosimo's cell in that monastery was decorated by Fra Angelico and constructed specifically so that he could have conversations with St. Antonino, who was the first postulant to take the Dominican habit at Fiesole. Since Cosimo was Europe's premier banker and Antonino was a fearless preacher as well as "a profound scholar and the European authority on Church law,"¹¹ Cosimo's cell might have given birth to a science of economics very different from the one which Adam Smith founded under Presbyterian auspices four centuries later, but that collaboration never took place.

Instead, the world got the 15th century version of the win-win situation. The Church got magnificent buildings, Cosimo got a clean bill of spiritual health, and the world got the Renaissance, a collection of art and architecture of stupendous brilliance. If some of his expenditure on pious institutions was occasioned in part

Cosimo de Medici

by a kind of "act of conscience" because "there weighed on Cosimo's mind an act of political hard dealing of which he was guilty,"¹² who cares?

When talking about the cultural achievement of Florence, it is easy to dismiss what might have been, in the glorious light of what was. What might have happened, of course, is the emergence of a genuine science of economics begotten by the fertile intercourse between St. Antonino, who had mastered the Church's teaching on usury, and Cosimo, his contemporary, who was the head of the biggest bank in Europe. They were the same age; they came from the same powerful culture, they were singing off the same page in so many respects and yet it never happened, largely because Cosimo never lost the sense that a new age was dawning with what seemed like limitless possibilities for making money.

Cosimo, in other words, could never unite the two sides of his nature. He was a Catholic and he was a banker, but like so many of his spiritual descendants, he was never a Catholic banker. He was never able to reconcile his life with his doctrine, as St. Bernardine of Siena had warned. There was "a distinct feeling of restlessness in Cosimo, all these elements combined in an acute feeling of unrest, incompleteness, and uncertainty before the problems of life."¹³ Troeltsch saw in Cosimo "the yearning to fuse a Christian depth of soul with the newly discovered sensuousness and appreciation of nature."¹⁴ To accomplish a synthesis of this sort requires both a great intellect to see the issues clearly and great moral force to carry the project to completion. Cosimo had neither. He has been praised as a great judge of character and ability, but that is only half true. He was able to rake through the *sottoposti* rubbish and come up with a jewel like Donatello, but in finding bank managers, he was a miserable failure.

In the intellectual sphere, the failure was even more telling. Cosimo was the patron of Marsilio Ficino, the greatest Platonist of the Italian Renaissance, but he thwarted whatever good might have come from those labors by sending Ficino down the rabbit hole of Neoplatonic mumbo-jumbo in search of something which made the quest for the philosopher's stone seem modest and pragmatic by comparison. Cosimo squandered what could have been one of the great moments in intellectual history on a fruitless pursuit of chrematistics and magic which was doomed from the start. And his negligence of more important things while still intoxicated by the possibilities of magic led to the inexorable decline of his own bank and the Florentine republic:

Economically speaking, Florence sank towards the end of the Quattrocento to the status of a second-rate power. The first signs of decadence—in industry, to begin with—are noticeable in Cosimo's time. His son managed to keep the balance. Under Lorenzo, Florence's decline began in earnest.¹⁵

On April 2, 1433 Florence concluded a peace treaty with Lucca. The war had entailed enormous expenses, which had to be recouped as taxation, but Florence had gained nothing for its efforts, and now there was grumbling against the oligarchs who had wasted so much of Florence's fortune and effort. The rejoicing

over the peace with Lucca was clouded by accusations that the Medici had used their funding of the war to enhance the political power of their family in away that alarmed the other Florentine oligarchic families. Formal charges were brought against Cosimo as a war profiteer. The most serious charges against the Medici were leveled by Ser Niccolò Tinucci, who claimed that the Medici conspired to prolong the war against Lucca for their own profit. "Many times," Tinucci recounted, "I heard Cosimo and Averardo say that the way to keep oneself powerful is to keep [the commune] in a state of war and to serve the needs of the war economy with ready cash, and then make loans to the commune that are secure and highly profitable. The people will have the impression of being helped by the very persons who reap [from such actions] profit, honor, greatness and power."¹⁶ Najemy claims that "the story he [Tinucci] tells is too detailed to have been completely invented."¹⁷

Cosimo led the anti-Albizzi faction. The Albizzi had come to power 50 years earlier when it restored order after the Ciompi rebellion. As discontent with the peace treaty grew, the Signoria, suspecting that Cosimo was behind the popular discontent, banished him from Florence on September 1, 1433, claiming that the Medici were "dangerous to the Republic by reason of their wealth and ambition."¹⁸

When he moved to Venice, Cosimo "was treated like a visiting head of state."¹⁹ On October 5, 1434, one year and one month after being expelled from Florence, Cosimo returned from exile to take over the Republic after the Albizzi government collapsed. Pope Eugenius IV facilitated Cosimo's return to power because he needed Cosimo's banking skills to manage papal finances. Pope Eugenius was so dependent on Medici financial expertise and Medici loans and on the interest from 100,000 florins of shares in Florence's public debt that he spent nine years of his papacy ruling the church from Florence.²⁰

The change of regime might have seemed like another in a long history of squabbles among Florence's oligarchic families, but appearances were deceiving. The Medici under Cosimo's leadership consolidated power as no other Florentine family had done up until then or thereafter, and with that power Cosimo forged a path for Florence that was to have far-reaching consequences for the rest of Europe. As some indication of his "constant obsession with never losing control of politics and government,"²¹ Cosimo banished his enemies; the case of Palla Strozzi, a man who had defended him against his enemies, simply because the Strozzi could be considered rivals to the Medicis' political and financial hegemony over Florence. Palla Strozzi died in exile in 1462, two years before Cosimo's death; he was exiled because Cosimo saw him as a someone "who could compete with Cosimo in wealth and prestige."²²

In spite of his connections with high officialdom in the Church, Cosimo returned to Florence as the hero of the common man. The *sottoposti* felt that their lot was going to improve under Cosimo's leadership and so he could undertake nothing against them. On the other hand, the Florentine cloth industry was in a

Cosimo de Medici

period of ongoing decline, largely because ruinous taxation to pay for wars had rendered their products too expensive to compete against the “fierce competition in Italy and abroad.”²³

Once he took over the government, Cosimo was in a bind. He was brought to power in part by the *sottoposti*, the lower orders, and so he had to give them some sense that he was on their side, but he intended to govern in the interests of the rich oligarchs, of which his family was now the most prominent. The Medici came to power as war profiteers and usurers because the other Florentine oligarchs, whose power they displaced, understood that Florence needed money to wage war. Those who had the money called the political tune. But he could not dispense with the political power of the Ciompi; so he resorted to deception. De Roover says that Cosimo “managed to rule Florence from behind the scenes while preserving the appearances of ‘liberty’ and constitutional procedure.”²⁴

Instead of reforming a corrupt system which was based on the appropriation of value from the worker, Cosimo resorted to political and economic trickery. He would give the illusion of benevolent concern for the common man and the common good by controlling the political situation from behind the scenes, all the while plunging Florence into another 20 years of “dangerous and costly wars.”²⁵ Cosimo took a lesson from the classics he had studied in his youth and implemented a strategy of *divide et impera* that played one faction off against the other while seeming to give each what he desired. In dealing with the *sottoposti*, that meant maintaining nominal wages while engaging in debasement of the currency, which lowered the actual amount which the worker was paid, a venerable policy he derived from both antiquity and Florentine precedent. Knowing that he would need to grind the *sottoposti* for still more taxes to finance still more wars, Cosimo took an unprecedented step. In 1435, less than a year after assuming the reins of power, Cosimo persuaded his friend Pope Eugenius IV to grant a dispensation allowing Jews to come to Florence to lend money to the *popolo minuto*.

On October 17, 1437, the Signoria granted a license to Abraham Dattili and his partners because “for several years past there has been nobody lending money on interest in the city of Florence. . . and that the Lord Pope has granted to this city, as the result of their petition, power to grant licenses to Hebrews to lend money at interest in the aforesaid city. . . .”²⁶

As of 1422, Florence had 72 exchange tables and about two million gold florins in circulation, but none of it was available for the *popolo minuto*, because they were paid in debased silver. As taxes increased under Cosimo, it became impossible for these people to survive on the short term without borrowing money. Given the interest rates they had to pay (on average 43 1/3 percent) it became impossible for them to survive on the long term if they did borrow money. So Cosimo chose short-term political benefits over the long-term economic health of the Florentine republic by bringing Jewish usurers in to lend to the common man.

Admitting the Jews to Florence meant that no more licenses to lend money

would be granted to Christians, a move which Cosimo's critics say was motivated by a desire to thwart competition from rivals, both real and imagined. According to Gutkind:

The mass of the lower classes—the artisan circles of the population—who needed money, were shamelessly bled for interest. The Jews, who never obtained a permanent right to settle in Florence but could only stay under certain conditions and in limited numbers, were often expelled one day on the ground of exacting too much interest from the population and recalled the next because Christian usurers demanded higher rates of interest and bigger guarantees than the Jews. It is recorded that in 1396 foreign Jews were summoned to the town to compete with local Christian *cambiatori* in an attempt to fix loans at an interest rate of not more than 15 percent. In 1430 Jews were allowed to enter the town in limited numbers and the rate of interest was fixed at 20 percent.²⁷

Jews had begun arriving in Tuscany at the beginning of the 14th century, but they had always been kept out of Florence, as a tacit admission of the deleterious effect that they had on the state. Once Cosimo embarked upon a policy of placating the *sottoposti* and continuing the state of perpetual war, there was no alternative. As Salter puts it:

The Medicean foreign policy was expensive and called for heavy taxation, direct and indirect. This made the *popolo minuto* especially dependent on advances (from the Jews), and it may be more than a series of coincidences that the renewal of the Jewish *capitoli* should synchronize so often with the imposition of additional taxation. . . . To the Florentines, the chief gain . . . was the provision of easy credit for the *popolo minuto*; this was especially necessary at the time of the vine harvest, "so that," as was said in 1470, "the poor and needy can borrow the money necessary for the payment of excise duties and for the purchase of wine."²⁸

The city of Florence also got an annual license fee from the Jews of 1,200 florins, a sum that "was too valuable a revenue to be lost."²⁹ Salter claims that it was no "mere coincidence" that the Jews were granted their usury license shortly after Cosimo's return from exile in 1434 because: "Cosimo had of necessity to keep on good terms with the *popolo minuto* and Pope Eugenius was his friend."³⁰ By admitting Jewish moneylenders to Florence, Cosimo killed two birds with one stone: he eliminated his banking rivals while rallying the common man to his cause "by providing them with the credit facilities which were necessary to them, but which they had not always found available . . . during the years of the Albizzi ascendancy."³¹

Jews were kept out of high finance in the Italian city states of the late Middle Ages. They were brought in as pawnbrokers, as a financial safety valve, to deal with the symptoms of economic injustice caused by ruinous taxation, low wages, and the constant debasement of the currency. Bringing Jews in to ameliorate economic injustice was tantamount to pouring gasoline on the fire. The prevalence of usury, especially among the lower classes, was symptomatic of deeper economic problems. In explaining why he wrote his book *The Eternal Life*, which he de-

scribed as "a short treatise that would, as best as possible, include in it all the laws of interest,"³² Yehiel Nissim da Pisa explained that in northern Italy "the practice of lending money to gentiles is more widespread than in the rest of Israel's diaspora. . . in these days and in these lands, since the matter of loans has become the common vocation of the [Jewish] people and the chief source of their livelihood. . . ."³³

Not all usurers were Jews, but in Italy virtually every Jew was a usurer or lived off one. According to the famous rabbi, Joseph Colon of Pavia, the money trade had become "the fundamental occupation of the Jews in these countries."³⁴ As a result, the Jews, who brought with them the theological odium of being the people who killed Christ, now had to deal with the added hatred that usury brought. The notion that Jews were causing financial hardship and disruption of the social order was no figment of an anti-Semitic imagination. Workers were forced to pawn their tools and equipment, "including the looms of poor weavers, making it impossible for them to work."³⁵ Conditions like this had led to the Ciompi rebellion in 1378. According to one contemporary commentator:

People are living in misery since they earn little and prices have been so high for 13 months and more. Just think about those who have three or four or five children, and who are assessed two or three florins, and who have to live from the labor of their hands and those of their wives. How can they stay here and live?³⁶

Those conditions were only exacerbated when Cosimo brought in Jewish usurers as a substitute for paying a living wage. Usury invariably disrupted the social order of cities like Florence, something that led to workers' revolts or periodic expulsions: "When the Jews became too numerous for the authorities' liking in Florence in 1477, all those who were not dependent on bankers were expelled from the town."³⁷ As Jews multiplied in the towns of northern Italy, they began moving into sectors outside the Jewish community and began affecting the culture more directly. "In 1443 the Venetian authorities forbade attendance at dancing-schools kept by Jews."³⁸ By the first half of the 16th century there were nearly 500 Jewish *banchi* in Italy:

The juggling of multiple partnerships and joint ventures . . . resulted in the concentration of the major part of the Jewish money trade in the hands of a few family businesses which were truly dynastic syndicates. The Pisa, Norsa, del Banco, Volterra and other families veritably formed a fairly closed class or caste within the bosom of Italian Judaism. . . perpetuated. . . by second-degree inbreeding.³⁹

According to Salomone da Montalcino, "The town is vast and full of business with the result that from morning to evening, until 11:00 o'clock or midnight on working days, people never stop coming asking for money, and one would not believe it if one did not see it with one's own eyes as I am seeing it."⁴⁰

Short term loans at high rates of interest did nothing to ameliorate the plight of the poor, but they facilitated other financial abuses. Evidence of loans taken out and repaid on the same day indicated that speculation, which then as now made

essential commodities more expensive and the lives of the poor more miserable, was rampant. Lodovico Zdekauer attributed the frequency of short and very short term loans to "the excitement of speculation, and in fact there seems no other explanation for a debt paid back on the day it was contracted."⁴¹

Usury was a symptom of a deeper economic problem. Medicean foreign policy was expensive and called for heavy taxation, direct and indirect. This made the *popolo minuto* especially dependent on advances (from the Jews), and it may be more than a series of coincidences that the renewal of the Jewish *capitoli* should synchronize so often with the imposition of additional taxation.

In 1406, during a new anti-usury campaign, there is even mention of withdrawing the licenses of Jewish lenders in the other towns of Florentine territory. In 1420 a maximum rate of 25 percent was finally imposed on public lenders in Florence; in 1421 this was raised to 30 percent. In 1430 the commune once more decided to appeal to the Jews and to grant them the monopoly of pawnbroking, this time at the more realistic rate of 20 percent. But again nothing happened, and Christians' licenses were renewed for the last time in 1431. Jews were, in fact, often preferred to Christian moneylenders, who were known to charge 60 to 80 percent. Before long a cycle was established of inviting Jews in to provide competition for the Lombards and Cahorsin and drive interest rates down, then expelling them, then inviting them back when interest rates became intolerable once again. Poliakov claims that "Zanelli connects these fluctuations with the movements of the great Franciscan preachers who, every time they passed through Brescia, preached vehemently against vice, sin, and the Jews."⁴²

Oftentimes it was difficult to distinguish between Christian and Jewish usurers because the Jews collaborated with Christians who wanted a good return on their money without being associated with the odium that went with usury. St. Antonino "castigated the idle who did not want to work and entrusted their money to merchants or usurers in order to collect annuities from them."⁴³ The practice of usury divided Italian society, as it would every culture thereafter, into creditors and debtors. More specifically: "the active opponents of the Jews of Italy consisted of some sections of the bourgeoisie and the mendicant orders, while their principal allies were the 'ruling classes' and the establishment, including, above all, the Roman Curia."⁴⁴

In some instances—in Mantua, for instance, according to Ugo Calefini—the Jewish banchi were in reality the frontmen for "local financial potentates, who drew enormous profits from them, leaving the Jews only a modest share."⁴⁵

Usury also involved tax evasion because "Jews were obliged neither to produce their books nor to name Christian depositors; they were compelled to declare only the total sum deposited with them, and to pay a 10 percent tax on this total."⁴⁶ Domenico Cecchi demanded the expulsion of the Jews because, he wrote, "not content with sucking the blood of Christians over the years, they have been behind what our Christian citizens make available for lending at interest under

their cover, and many other evils ³⁷

Preachers like Bernardine of Siena began likening money to blood. Poliakov attributes a "malevolent credulity" to Christians in general and the Mendicants in particular.⁴⁸ But the pernicious effect of usury on the social order was no figment of the Christian imagination. There was no greater threat to the solidarity of the Christian commonwealth.

Poliakov also mentions that "accusations of ritual murder"⁴⁹ committed by the Jews also multiplied, indicating that the two phenomena were related. St. John of Capistran was a Franciscan who strenuously denounced the privileges of the Jews. He was also involved in a ritual murder trial on his way to Bohemia. Heinrich Graetz fulminates against St. John Capistran in the most intemperate terms, but the simple facts of the case led both Capistran and the judge to conclude that the Jews had been involved in the desecration of the Host, as well as the murder of a child and the murder of a Jewish woman who had threatened to expose what happened.

The main consequence of the invitation which Cosimo extended to Jewish usurers was the link it forged in the popular mind between economic reform and the expulsion of the Jews. By the end of the 15th century, these issues became two sides of the same coin, a connection which was reinforced by a series of medicant preachers beginning with Bernardine of Siena and extending by way of Bernardino da Feltre to Savonarola and beyond. The Franciscan, Marco Strozzi, scion of the ancient family which Cosimo had banished, eventually brought about the reform when the first *monti di pietà*, or pawnshop for the poor, was established in 1496.

Endnotes

1 Raymond de Roover, *The Rise and Decline of the Medici Bank: 1397-1494* (Cambridge, Massachusetts: Harvard University Press, 1963), p. 52.

2 Ibid.

3 de Roover, *Medici*, p. vii.

4 de Roover, *Medici*, pp 2-3.

5 de Roover, *Medici*, p. 3.

6 de Roover, *Medici*, p. 58. Although Italian merchants often resided abroad for several years at a stretch, rarely married foreign women or even Italian women from other cities. Of course, illicit relations with maids, slaves or local girls were quite common; indirect evidence is found in the sermons of the friars who preached against the moral dangers to which merchants exposed themselves by prolonged absences in foreign countries and long separations from their wives. Despite the fulminations of the Church, laxity in private morals was regarded by the merchants with a great deal of indulgence and did not meet such strong social disapproval that it was a handicap in making a career. Illegitimate children were often brought up in the household along with legitimate offspring. Cosimo is a good example of the prevailing attitude; he had a son, Carlo, by a slave girl and had him reared in his own house with his legitimate issue.

7 de Roover, *Medici*, p. 12.

- 8 Curt S. Gutkind, *Cosimo De' Medici: Pater Patriae, 1389-1464* (Oxford: At the Clarendon Press, 1938), p. 45.
- 9 Gutkind, p. 42.
- 10 De Roover, *Medici*, p. 13.
- 11 Gutkind, p. 231.
- 12 Gutkind, pp. 222-3.
- 13 Gutkind, p. 223.
- 14 Gutkind, p. 224.
- 15 Gutkind, p. 9.
- 16 John M. Najemy, *A History of Florence 1200-1575* (Malden, MA: Blackwell Publishing, 2006), pp. 272-3.
- 17 Ibid.
- 18 Najemy, p. 46.
- 19 Najemy, p. 275.
- 20 Najemy, p. 286.
- 21 Najemy, p. 279.
- 22 Najemy, p. 280.
- 23 Gutkind, p. 107.
- 24 De Roover, *Medici*, p. 75.
- 25 De Roover, *Medici*, p. 118.
- 26 F. R. Salter, "The Jews in 15th Century Florence and Savonarola's Establishment of a Mons Pietatis," *Cambridge Historical Journal*, Vol. 5, No. 2 (1936), pp. 193-211, p. 195.
- 27 Gutkind, p. 42n.
- 28 Salter, p. 198.
- 29 Salter, p. 199.
- 30 Salter, p. 196.
- 31 Ibid.
- 32 Leon Poliakov, *Jewish Bankers and the Holy See: From the 13th to the 17th Century* (London: Routledge & Kegan Paul, 1977), p. 112.
- 33 Ibid.
- 34 Ibid.
- 35 Najemy, p. 159.
- 36 Najemy, p. 160.
- 37 Poliakov, p. 115.
- 38 Poliakov, p. 116.
- 39 Poliakov, p. 117.
- 40 Poliakov, pp. 90-1.
- 41 Poliakov, p. 91.
- 42 Poliakov, p. 61.
- 43 Poliakov, p. 64.
- 44 Poliakov, p. 63.
- 45 Ibid.
- 46 Poliakov, p. 64.
- 47 Poliakov, p. 63.
- 48 Poliakov, p. 94.
- 49 Ibid.

Chapter Eight

The Council of Florence

On January 27, 1439 Cosimo de Medici, as Florence's standard bearer of justice, welcomed Pope Eugenius and the Greek Emperor John VIII Paleologos to Florence. Seven months later, on July 6, 1439 the Orthodox and Catholic delegations proclaimed the end of the schism between the eastern and western churches in a solemn ceremony at the cathedral of Santa Maria del Fiore under Brunelleschi's recently constructed dome. The dome provided a suitably spectacular setting for an equally ambitious, if short-lived, theological triumph. The Council of Florence, which resolved the schism between the eastern and western churches (if only fleetingly) actually began in Ferrara in October 1438, but a combination of the plague, the threat of hostile Visconti armies, and the urging of Cosimo de Medici, who saw financial benefits accruing to Florence, persuaded the council fathers to move their deliberations to the town billing itself as the "Athens of the West."

The astonishment which the procession of pope and Greek emperor induced is hard to imagine. Fortunately, we have the painting of Fra Angelico's apprentice, Benozzo Gozzoli, commemorating the event some 20 years after the fact to help our imagination. The Florentines were astonished and amused at the outlandish costumes of the Byzantine delegation, something which Gozzoli captures in his portrait of the Eastern Emperor John VIII Paleologos, who wears a golden crown surmounted by pearl tipped spikes which rests on a pillow-like turban of what looks like golden silk. The Byzantine delegation was equally amazed at what they saw as they convened under Brunelleschi's new dome in a Cathedral at the heart of what was now "the greatest open-air museum in the world."¹

Educated Italians had always revered Byzantium. The great humanist Aeneas Sylvius Piccolomini, later Pope Pius II, portrayed as a tired old man in Gozzoli's Magi, had written: "Constantinople remains to this day a monument of ancient wisdom, the home of letters, and the citadel of philosophy. No Italian can pretend to be educated unless he has studied for a time at Constantinople."²

But by the time of the Council of Union, "Florentine painters had already shaken off the constrictions of Byzantine formalism," and "in sculpture and architecture they had gone back beyond Byzantium to revive the genius of classical styles." All of this, plus the evidence in front of their eyes, forced the Greeks to admit that "Florence had surpassed Byzantium" when it came to the visual arts.³

What was true of the fine arts was *a fortiori* true of just about every other area of culture. The Italian city states led the world in commerce and banking, some-

thing the Greeks knew first hand because Italian cities dominated the economy of the Aegean. They also dominated Europe when it came to higher education. At a time when the Platonic academy of Athens had been dead for almost a millennium and the University of Constantinople defunct, Italy could boast of no less than 14 of Europe's 28 universities. Northern Italy was a cultural powerhouse, in which the arts were supported by a combination of manufacturing, commerce and banking, which were unprecedented in their sophistication. This made a dramatic impression on the Byzantine *peritus* Scholarius, who wrote to his students:

Generations of Italians, whom we once regarded as barbarians, are now applying themselves to scholarly studies or rather adding to existing knowledge, while to us books are a burden, or rather we have surrendered them to those who know how to use them, so that if we are to take up learning properly and to revive what we have neglected we should have to seek from abroad the books necessary for our purpose.⁴

When it came to discussion of the issues separating the churches, the Byzantines were outclassed theologically as well: "the Catholics always held the upper hand by virtue of their numbers, their intellectual conviction, and their efficiency."⁵ Not that it mattered. The resolution of the schism was a foregone conclusion that had little or nothing to do with theology. Constantinople, the last bastion of the eastern Roman empire, was surrounded by militant Turkish Islam and would be overrun 14 years later. Emperor John VIII Paleologos needed troops from the West to repel them, and he wasn't going to let a dispute over something as arcane as the *filioque* clause stand in the way.

With the outcome of the council a foregone conclusion, the Byzantine *periti* who accompanied Emperor John and Patriarch Joseph had lots of free time to socialize with the Florentine elite. The greatest scholar in the Byzantine delegation was George Gemistos. Gemistos was 70 (some sources claim he was 80) years old at the time of his arrival in Florence. He had also changed his name to Plethon in honor of Plato, his idol. Plethon was a neo-Platonist. As such he was a magus himself, and one of the Magi whom Gozzoli depicted as processing toward Bethlehem or, to be more exact, toward Florence, the new Bethlehem of the dawning new age.

Cardinal Bessarion, who tried to get the orthodox to accept the decisions of the Council and failed, claimed that Gemistos was "the first competent interpreter of both Platonism and Aristotelianism to address Latin audiences in Greek for a thousand years."⁶ Although the West was familiar with the writings of Aristotle, Plato was largely an unknown. In fact:

It was not until 1423 that the complete corpus of Plato's surviving works was available in the West even in the original Greek. The philosophical study of Plato, as distinct from the literary task of translation, had scarcely begun. In effect, it began with Gemistos' arrival.⁷

Masai feels that the Renaissance began with Plethon's arrival in Florence.⁸ If so, it was born under a bad sign. Gregorius [a monk who gave his funeral oration]

Council of Florence

had been initiated into Gemistos' esoteric teaching. Both men spoke of him as a "leader of initiates" (mystagogos), implying that he had formed a private circle, but only Gregorios knew exactly what that meant, when he claimed that⁹ Gemistos laid down:

the easiest route to knowledge for those who chose; he exposed with complete accuracy and wisdom the false route which misled some men; and he liberated the human race from its supreme deception. Proof of what I have said lies in the wise and brilliant writings of that blessed and divine soul, and whoever faithfully follows them in every respect could not miss the sacred truth."¹⁰

Someone like Cosimo, who was plagued with guilt because of his involvement with usury, would find Gemistos's teaching attractive because as Gutkind puts it:

This ecclesiastical veto had taken deep root in moral thought. But since it obviously went against the very principles and development of economics, it led to grievous spiritual conflicts in the life of the individual and to the attempt to free one's conscience by formal evasion to escape the just punishment in the hereafter and still make one's profits in this world.¹¹

For someone like Cosimo, who wanted both riches and heaven too, Gemistos's attack on theologians as sophists and on Christianity as a "false route" would be deeply consoling. Both of these teachings could be found in Gemistos's last work *The Book of Laws*. The idea that newly discovered classical texts revealed a way superior to Christianity would fuel the Renaissance in Florence, and if classical sculpture was clearly superior to later models, why shouldn't classical economics, which favored usury and dispensed with Christian concepts like the just price and the just wage, be equally superior? The Medici clearly derived an advantage in their financial dealings by a return to the classical position. The Catholic position said that usury was theft and demanded restitution, something no Medici would agree to. This return to classical economics was occurring at the law faculty in Bologna as well.

Gemistos, the *prime magus*, doesn't appear in the Gozzoli painting, but the Florentine magi, the Medici, led by the anachronistic portrait of Lorenzo astride a white horse as he must have appeared in 1469, are clearly portrayed as following the Byzantine emperor, which could be construed as following the delegation he brought with him, which could be construed as following the esoteric teachings of George Gemistos. Since the orthodox delegation was housed in the Palazzo Medici, Gemistos had direct access to the humanist circle whose center and main benefactor was Cosimo de Medici. Cosimo was in many ways the ideal pupil because he had studied Greek under Roberto de Rossi, who in turn had studied under Chrysoloras, who held the first chair of Greek studies in Florence. During the Council of Constance, Cosimo had visited the monasteries of Switzerland and southwestern German principalities with Poggio Bracciolini looking for manuscripts. Cosimo would become the founder of the Platonic Academy in Florence and the patron of Marsilio Ficino, the greatest Platonist of the Italian Renaissance.

Cosimo's humanist circle also included Leonardo Bruni, who was a member of the Signoria in 1439 and welcomed the Byzantine delegation with a speech in fluent Greek, as well as, "wealthy merchants and even churchmen were active students of the Greek classics."

Who, then, are the Magi portrayed in Gozzoli's painting? Lorenzo, astride a white horse, is followed by his father Piero the Gouty, who is followed by his father Cosimo, who is portrayed riding next to a tired Pope Pius II. The Magi are portrayed as a Medici family configuration, but there may be another message. Gozzoli may be telling us that the Medici are the real magi, and that it was through their efforts that magic made its way into Florence.

The connection between the Medicis and magic was established years before Lorenzo was born when Gemistos, with little or nothing to do at the Council, decided to lecture on the differences between Plato and Aristotle to a wildly appreciative audience, which included Cosimo de Medici and the humanist circle he subsidized with Medici money. "Plethon," Francois Masai wrote, "entered into a relationship, not only with the secondary ranks. . . but with the highest levels of Italian humanism."¹²

Gemistos recognized that the Florentines were avid for knowledge of classical Greek authors, and he used that avidity to introduce them to the secret gnosis of neoplatonism. By the time he arrived in Florence, Gemistos had "in fact renounced Christianity in favor of Neo-Platonism, he spent his time discoursing on Platonism and Zoroastrianism to the Florentines and so fascinated Cosimo himself that, shortly afterwards, a Platonic academy was formed and given hospitality for its meetings in the new [Medici] palace."¹³

During his lectures in Florence it became clear that whether the orthodox considered him a theologian or not, Gemistos was an unabashed pagan who admired Julian the Apostate, and like his mentor he had apostatized and was now deeply involved in magic. What began as an introduction into classical texts became an initiation into something akin to the Eleusinian mysteries. Like Monk Gregorius, Cardinal Bessarion "too had once described Gemistos as a 'leader of initiates' or mystagogos. Woodhouse claims that "his old teacher's paganism was well known to him":

I have learned that our common father and master has shed every earthly element and departed to heaven, to the place of purity, joining the mystical chorus of Iacchus with the Olympian gods. . . . If one were to accept the doctrines of the Pythagoreans and Plato about the infinite ascent and descent of souls, I should not hesitate even to add that the soul of Plato, having to obey the irrefragable decrees of Adrasteia and to discharge the obligatory cycle, had come down to earth and assumed the frame and life of Gemistos.

As Woodhouse points out,

The phraseology of this letter follows closely that of Plato's *Phaedrus*, which describes the cycle through which the soul passes between this world and the oth-

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er world every 10,000 years. Certain phases such as “the decrees of Adrasteia” (Fate) and “the blessed chorus” are explicitly Platonic.¹⁴

Bessarion may have “stopped short of paganism,”¹⁵ but Gemistos did not. His lectures on Aristotle and Plato were little more than exoteric neoplatonism. They were an introduction to the same sort of magic which had exercised such a fatal attraction on Julian the Apostate, with whom Gemistos shared “a devotion to the Sun, an admiration of the Chaldaean oracles and a preference for paganism.”¹⁶ For Gemistos, “Christianity. . . was just one among many variants of religious belief, with no special claim on the allegiance of a philosopher.”¹⁷

Gemistos, according to Scholarios, was “a would-be heresiarch” who used the Florentines’ desire to know more about Plato as a way of inculcating in his audience a desire for magic and the power that went with it. Scholarios was right when he “brushed aside all the imaginary sources as a mere smokescreen to hide more sinister influences. Although his accusations of deceit were exaggerated and sometimes incoherent, a large measure of truth underlay them.”¹⁸

According to Scholarios, Gemistos

tried to conceal his true character, but was unable to do so when he sought to implant his ideas among his pupils, and he was dismissed from the City by the pious Emperor Manuel and the Church. Their only mistake was that they refrained from denouncing him to the public, and failed to send him into dishonorable exile in barbarian territory, or in some way to prevent the harm that was to come to him.¹⁹

Scholarios mentions Averroes, Proclus, and Zoroaster, representing “the influence of Aristotle, Neoplatonism and orientalism respectively” as “sinister influences” on Gemistos’ intellectual development.²⁰ Gemistos early on fell under the influence of a Jew by the name of Elissaeus. Like Photius, Gemistos “was accused of having sold his soul in his youth to a Jewish magician.”²¹ The accusation comes from Scholarios, who, in seeking to explain the genesis of Gemistos’ *Book of Laws*, his last and most heretical book, wrote:

It was natural in the case of a man under such influence, in the absence of divine grace, that through the demons with whom he associated there should have come a tendency towards and ineradicable adherence to error, as happened to Julian and many other apostates. The climax of this apostasy came later under the influence of a certain Jew with whom he studied, attracted by his skill as an interpreter of Aristotle. This Jew was an adherent of Averroes and other Persian and Arabic interpreters of Aristotle’s works, which the Jews had translated into their own language, but he paid little regard to Moses or the beliefs and observances which the Jews received from him.²²

Scholarius claims that this Jew, whom he later names as Elissaeus, expounded “the doctrines of Zoroaster and others” to Gemistos:

You first learned about Zoroaster, having no previous knowledge of him, from the polytheist Elissaeus, who was ostensibly a Jew. Departing from your own

country, you lived with him in order to benefit from his famous teaching at a time when he enjoyed great influence at the court of the Barbarians. Being what he was, he met his end in the flames, just like your Zoroaster.²³

Scholarius refers here to the fact that Elissaeus was burnt at the stake. He was executed, most likely at Constantinople, for subverting the faith of a Christian, a capital offense at the time. Just as it was a capital offense for a Jew to undermine the faith of a Christian and cause him to apostatize, so it was also a capital offense for a Christian to “Hellenize,” which is to say, “to revert to pagan practices (and according to Scholarios, Elissaeus was a secret ‘Hellenist’)—and for anyone to make sacrifice to pagan gods. The persistent renewal of these clauses shows that the authorities believed the danger was still a reality.”²⁴

Gemistos was promoting the teaching of Proclus, who died in 485 AD after a stint as head of the Platonic Academy in Athens. From Proclus, Gemistos derived a penchant for seeing triads everywhere, and soon this same penchant began showing up in the writing of Florentine adepts like Marsilio Ficino. Woodhouse sees Ficino, the man whom Cosimo de Medici commissioned to translate Plato and the neoplatonic esoterica, as Gemistos’ main intellectual heir in Florence. Ficino, like Gemistos, felt that “every philosopher who is inspired by Plato considers three aspects of everything.”²⁵ Scholarios regarded Proclus, who claimed to have had personal contact with spirits, as Gemistos’ “evil genius.” Gemistos borrowed the term “Platonic Theology” from Proclus and passed it on to Ficino. Through Ficino, Gemistos gave Neo-platonic magic “a new and powerful impetus in western Europe.”²⁶ Gutkind claims that Gemistos initiated Cosimo into the mysteries of Neo-platonism.²⁷ Parks indicates that Cosimo’s fascination with “astrology and magic” had a distinctly financial motivation: “Even if money could be made by waving a wand,” Cosimo claimed, “I would still be a banker.” Why? Banking involves manipulation, risk, power. Banking is magic that works.²⁸

So Gozzoli’s painting was an accurate representation of the situation in Florence after all. We can quibble over whether Cosimo or Lorenzo should have sat astride the white horse that dominates the center of the painting spatially and philosophically, but the Medicis were indisputably the principal magi in Florence. Without Cosimo, there would have been no Ficino, and without Ficino there would have been no translations from the Greek, and without those translations, neoplatonic magic could not have been injected into the intellectual bloodstream of a morally weakened Christendom.

Cosimo de Medici paid Ficino to do his translations. What got translated was a function of what Cosimo considered important. Gemistos may have initiated Cosimo into some latter day version of the Eleusinian mysteries or the religion of Julian the Apostate, but Cosimo had an agenda of his own, which is manifested most clearly in the texts he paid to have translated.

The magic texts which Cosimo paid to have translated were not limited to neoplatonic writings. They also included the Jewish magic known as cabala.

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Woodhouse claims that Gemistos studied under a rabbi by the name of Elissaeus, but he also states that neither the cabala nor the writings of Hermes Trismegistos appear in Gemistos's writings. Hermes Trismegistos, the "thrice-greatest," was the Greek name for the Egyptian god Thoth. The writings attributed to him were copied by the Egyptian Greeks in the third and following centuries AD. They contain elements of Platonism and Stoicism but show almost no Christian influence. Eventually Psellos' manuscript of the writings of Hermes Trismegistos fell into the hands of Marsilio Ficino, who translated it into Latin and had it published in 1471. It was Ficino's (and Lorenzo de Medici's) protégé, Pico della Mirandola, who made the cabala known to Christian Europe.

The common denominator between the neoplatonism Gemistos espoused and the Hermetic texts and cabala, which go unmentioned in his writings, is magic. What appears to be a contradiction may not be so in reality. Gemistos criticized Aristotle for departing "from this esoteric principle by putting everything down in writing, including the esoteric doctrines which he had learned from Plato."²⁹ Esoteric doctrines in the Neo-Platonic tradition were "mysteries," and they were specifically not put into writing.

This leads to an alternative explanation of why cabala and the Hermetic Corpus were absent from Gemistos' writings. Given the prominence which cabala and the writings of Hermes Trismegistos played in the Platonic Academy of Florence, their absence may indicate that they were more important than what he wrote down. They were part of the secret gnosis that could only be passed on by word of mouth. "Gemistos," we are told, "followed Plato in distrusting the written word as the means of communicating the most important doctrines."³⁰ Cabala and the Hermetic corpus are missing from Gemistos's writings not because they were unimportant, but because they were too important to be put in writing and could only be passed on as mysteries, which is to say orally as part of what transpired after the adept was initiated into the cult of neoplatonism.

Whether cabala and the Hermetic corpus were as important to Gemistos as the Neoplatonic texts is ultimately irrelevant. They were certainly important texts for the Platonic Academy of Florence, which means, of course, that they were important to Cosimo, who paid for their translation: "The Hermetic writings were translated into Latin by Marsilio Ficino, encouraged by Cosimo de Medici, whose interest in Platonism was stimulated by Gemistos. The Cabala was intensively studied by Pico della Mirandola, a junior contemporary and admirer of Ficino."³¹

Gemistos saw the neoplatonic texts as the foundation of a new religion which would come into being shortly after his death. Scholarios tells us that:

It is known that he [Gemistos] was so much a Platonist that he claimed that nothing other than what Plato believed about the gods, the soul, sacrifices to the gods, or daimons and all the rest, great and small, was true, and he dared to write it without restraint. I myself heard him at Florence—for he came to the Council with the Greeks—asserting that the whole world would in a few years adopt one

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and the same religion, with one mind, one intelligence, one teaching. And when I asked: "Christ's or Muhammad's?" he replied, "Neither, but one not differing from paganism." I was so shocked by these words that I hated him ever after and feared him like a poisonous viper, and I could no longer bear to see or hear him. I heard too, from a number of Greeks who escaped here from the Peloponnese that he openly said, about three years before his death that not many years after his death both Muhammad and Christ would be forgotten and the real truth would shine forth on all the shores of the world.³²

There is no reason to believe that Gemistos kept this idea from his Florentine adepts, nor is there any reason to believe that they didn't share this idea with their master. How they implemented the concept is best explored in light of what happened in Florence under Cosimo's leadership. If we look closely at the translations that the Medici magi commissioned—the neoplatonic texts, the Chaldean Oracles, the writings of Hermes, and the Cabala, which Pico translated while under the patronage of Lorenzo—the common denominator which emerges is magic.

This should come as no surprise because magic was an expression of moral decadence, and the Renaissance was an age saturated by moral decadence in areas both veneral and economical. Magic, as the Faust legend, which began growing around this time, indicates a way to get both sex and money. "The world [of the Medici] was full of magic and sorcery."³³ It was part of the legacy of the Black Death and the Great Schism, one which perdured in spite of the Church's efforts to extirpate it:

there was no excess of barbarity, tyranny, and crime that the one faction inflamed with rage against the other, had not proved itself from time to time capable of perpetrating. In addition, great confidence was reposed in vain observances and superstitions. No one undertook any business, or began building a house without first observing the stars; and after the fashion of the Egyptians, days were observed with greater care than the laws of God. The world was full of magic and sorcery, and charms were employed to cure sickness, whiles holy and profane things were blended together in confusion.³⁴

People rarely attended Mass or received the sacraments. As a result:

The fear of those laws which prohibit games of chance was no longer felt, but gamblers resorted with impunity to the houses which stood open to them. Holidays were not distinguished from working days, except by the greater flocking of people to different kinds of shows and amusements; and the schism which for upwards of 40 years afflicted the Church, contributed much to all of these evils.³⁵

The most famous text of the Hermetic corpus was known as the *Emerald Tablet*, a "text purporting to reveal the secrets of the primordial substance and its transmutations," which was highly regarded by European alchemists as the foundation of their art."³⁶ The *Emerald Tablet* "became a mainstay of medieval and Renaissance Alchemy," for one major reason. The magus who could interpret its cryptic lines would be able to turn lead into gold. John Dee and his assistant Edward Kelley were initiates in the same alchemical tradition, and both men be-

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came famous alchemists in Bohemia in the late 16th century. Kelley and Dee knew that there has always been a link between finance and magic. In the Middle Ages, the name of that link was alchemy.

In addition to being sunk in vice of every sort, the 15th century was the century during which paganism was reborn. The Renaissance began around the beginning of the 15th century. In 1397, the same year in which the Medici Bank was founded, Manuel Chrysoloras accepted the chair of Greek Studies at the Florentine Studio, which eventually came to be known as the Florentine University associated with the humanists Poggio Bracciolini, Leonardo Bruni, and Palla Strozzi.

In 1401 the city fathers announced a competition for the second gate of the Florentine baptistry. This event, which added the sculptors Brunelleschi, Donatello and Ghiberti to the Pantheon of Florentine culture, signaled the beginning of Renaissance art which would find its culmination 80 years later, when Botticelli painted his *Primavera*, which announced that the spring of paganism had returned to the city of flowers.

Nietzsche is a latter day example of the return to paganism that began with the Renaissance. It is clear that Nietzsche was as avid to adopt the economic side of paganism as he was its sexual, Dionysian side. That meant unlimited license to exploit the worker, something Nietzsche viewed with approval, as when he wrote: "It is stupid that there is a worker problem in the first place. Certain things one does not concern oneself about."³⁷ Nietzsche was a consistent champion of classical culture when he went on to attack charity and condone slavery: "We now propose an abiding truth: slavery is part of the essence of culture. . . . The first law of human charity: any one who is weak ought to be given a shove so that he will go down faster."³⁸

What was true of an ex-Protestant classics professor *manqué* like Nietzsche was *a fortiori* true of a Catholic banker like Cosimo de Medici. Classical culture held attractions for both, who saw that sexual license and the exploitation of the worker were two sides of the same moral coin. It was precisely the Christian injection of moral order into spheres where the strong could exploit the weak *ad libidem* which humanists and capitalists of every generation found repugnant.

Alchemy was the home grown tradition of magic, and finance was one of the main arenas of magical thinking. Mackay claims that "every great man who attempted to study the secrets of nature was thought a magician."³⁹ But he might just have said that alchemy was one large undifferentiated mass of knowledge out of whose womb a number of sciences and superstitions would emerge over the course of the next five centuries. As of 1397, chemistry, chresmatisticks, magic, economics, finance, fiscal policy (as well as monetary policy), mass psychology, as well as policies on issues like currency devaluation, lay tightly coiled, side by side inside the branch of alchemy known as the philosopher's stone.

The philosopher's stone along with the *elixir vitae* was a pillar of alchemy. The philosopher's stone was, in fact, the financial application of alchemy. It generally

involved turning lead (or other base metals) into gold or silver. However, in reading the accounts of medieval alchemy, one begins to discern individual aspects of the newly emerging money economy which would eventuate in the rebirth (after a hiatus of 1,000 years) of free market capitalism.

Pietro d'Apone, an "eminent physician" and magus, who was born near the end [or in the middle] of the 13th century and lived in Padua, where he perfected the power of having whatever gold he lent out return to him, as if by magic:

Whenever he disbursed gold, he muttered a certain charm, known only to himself, and next morning the gold was safe in his possession. The trader to whom he gave it might lock it in his strong box and have it guarded by a troop of soldiers, but the charmed metal flew back to its old master. Even if it were buried in the earth, or thrown into the sea, the dawn of the next would behold it in the pockets of Pietro.⁴⁰ . . . Bolts and bars could not restrain it, and it sometimes became invisible in their very hands, and was whisked through the air to the purse of the magician. He necessarily acquired a very bad character; and having given utterance to some sentiments regarding religion which were the very reverse of orthodox, he was summoned before the Tribunals of the Inquisition to answer for his crimes as a heretic and sorcerer. . . . He died in prison before his trial was concluded.⁴¹

The tale of Pietro d'Apone is part of the folk wisdom that coalesced around figures like Doktor Faustus and Till Eulenspiegel. It was the folk having recourse to magic to explain something that was unexplainable. What the folk tale saw as "magic" was a manifestation of compound interest. The borrower can never keep the money he borrows. It flies magically back into the purse of the lender impoverishing the borrower by chaining him to perpetual payments on a never-ending debt.

Once word of the "magic" involved in alchemy got abroad, alchemists became sought after by princes, who were chronically in debt and needed a "magic" more powerful than compound interest to get out of debt.

Raymond Llull, who is now known as one of the founders of computation theory, and then as someone devoted to the conversion of Jews and Muslims, was also known, in folk wisdom, as an alchemist and as such sought after by kings who needed his skills to replenish their debt-with-interest-depleted treasuries. While in Milan working on founding a college for the study of Arabic, Llull was invited by King Edward I of England to settle there. Llull was confined to "apartments assigned for his use in the Tower of London, where he refined much gold. . . . made gold out of iron, quicksilver, lead and pewter to the amount of six millions."⁴²

During the 14th and 15th centuries, Mackay tells us, "Pretenders to the secrets of the philosopher's stone appeared in every country in Europe," because "the monarchs of Europe were no less persuaded than their subjects of the possibility of discovering the philosopher's stone."⁴³ Kings were interested in using the philosopher's stone in a desperate attempt to get out of debt. "Henry VI and Edward IV of England encouraged alchymy" because both sides in the War of the Roses

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were heavily in debt and saw alchemy as the solution to their financial woes:

It was a common practice in Germany, among the nobles and petty sovereigns, to invite an alchymist to take up his residence among them, that they might confine him in a dungeon till he made gold enough to pay millions for his ransom. . . . A similar fate appears to have been intended by Edward II for Raymond Lulli [who] managed to make his escape. . . by jumping into the Thames and swimming to a vessel that lay waiting to receive him.⁴⁴

Alchemists were often employed in mints and treasuries. Another way to turn lead into gold was to debase the currency. The philosopher's stone was often a cover for ill-gotten gains, as in the case of Jacques Coeur, who rose

From a very humble origin. . . to the highest honors of the state and amassed enormous wealth by peculation and plunder of the country which he should have served. It was to hide his delinquencies in this respect, and to divert attention from the real source of his riches, that he boasted of having discovered the art of transmuting the inferior metals into gold and silver.⁴⁵

Coeur used his position as treasurer to debase the currency, and then used his reputation as possessor of the philosopher's stone to cover what he was doing. The son of a goldsmith in Bourges, Coeur "became. . . a workman in the Royal Mint of Bourges in 1428," where he gained the reputation of being a financial wizard, largely because of speculation and cornering the market in objects of financial necessity.⁴⁶ During his career as financial wizard, Coeur "did not hesitate to oppress the poor by continual acts of forestalling and monopoly"⁴⁷ until he became the richest man in France. Unlike now, when usurers are celebrated as clever businessmen, "everybody [then] said that so much wealth could not have been honestly acquired."⁴⁸ Coeur was beset with "dark hints that he had acquired his fortune by debasing the coin of the realm and forged the king's seal to an important document, by which he had defrauded the state of very considerable sums."⁴⁹

To silence these rumors, Coeur claimed that he had discovered the secret of the philosopher's stone. He even invited alchemists from foreign countries to reside with him and write "a treatise upon the hermetic philosophy, in which he pretended that he knew the secret of transmuting metals."⁵⁰

Eventually the truth came to light. Coeur was arrested in 1452 and in the course of his trial, "it was proved that. . . in his capacity of master of the mint of Bourges, he had debased to a very great extent, the gold and silver coin of the realm." Coeur also supplemented his income by supplying "the Turks with arms and money to enable them to carry on war against their Christian neighbors, for which service he had received the most munificent recompenses." As if to show that crime does pay, the chronicler tells us that Coeur "retired to Cyprus, where he died in 1460, the richest and most conspicuous person of the island."⁵¹

Just as Coeur used the philosopher's stone as a cover for debasing the currency, Nicholas Flamel used the story of the philosopher's stone to cover his involvement in usury. According to the cover story, "Nicholas Flamel. . . became

desperately addicted to the study of alchemy, and thought of nothing but the philosopher's stone, the elixir of life, and the universal alkahest."⁵²

Flamel convinced himself that he had in his possession one of the sacred books of the Jews, taken from the temple of Jerusalem on its destruction by Titus. Unfortunately, after 21 years of fruitless effort, Flamel was forced to admit that he couldn't read the book. At this point his wife suggested that Flamel consult "some learned rabbi"; since there were none in Paris, "he trudged on foot towards Madrid," because "all of the chiefs of that religion were located in Spain."⁵³

In Leon, Flamel met a converted Jew by the name of Cauches, who informed him that the book was not only genuine, it was "in the handwriting of Abraham himself and had been in the possession of personages no less distinguished than Moses, Joshua, Solomon and Esdras."⁵⁴ Not only that, "it contained all the secrets of alchemy and of many other sciences and was the most valuable book that had ever existed in this world!"⁵⁵

Before long, Flamel was back in France, where "he converted a large quantity of mercury into gold." In addition to containing the philosopher's stone, Flamel's book also contained the formula for the "elixir of life," which provided him with the "means to keep death at a distance for another quarter of a century," so that when he died in 1415 at the age of 116, he had accumulated "immense quantities of gold, though to all outward appearance he was as poor as a mouse."⁵⁶

According to Mackay the real explanation for the fabulous fortune Flamel accumulated was usury, which is to say, compound interest collected over a long life:

The great wealth of Nicholas Flamel is undoubted, as the records of several churches and hospitals in France can testify. That he practiced alchemy is equally certain, as he left behind several works upon the subject. Those who knew him well, and who were incredulous about the philosopher's stone, give a satisfactory solution to the secret of his wealth. They say that he was always a miser and a usurer; that his journey to Spain was undertaken with very different motives from those pretended by the alchemists; that, in fact, he went to collect debts due from Jews in that country to their brethren in Paris, and that he charged a commission of fully cent per cent in consideration of the difficulty of collecting and the dangers of the road; and that when he possessed thousands, he lived upon almost nothing; and was the general money-lender at enormous profits to all the dissipated young men at the French court.⁵⁷

Eventually, the magic came full circle when the magus John Aurelio Augurello, who was born at Rimini in 1441 and eventually became professor of the *belles lettres* at Venice and Treviso, dedicated his book *Crysopeia*, "in which he pretended to teach the art of making gold," to Pope Leo X. Pope Leo X was the son of Lorenzo de Medici, the man Gozzoli celebrated as the Archmagus of Florence in his fresco in the Medici chapel. Any hope which Augurello harbored that Leo X "would reward him handsomely for the compliment" implicit in the dedication proved to be in vain. Instead of giving Augurello a reward, "the pope with great ceremony and much apparent kindness and cordiality, drew an empty purse from

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his pocket and presented it to the alchymist saying that since he was able to make gold, the most appropriate present that could be made him, was a purse to put it in.”⁵⁸

Leo X was smart enough to know that the Medici fortune did not spring miraculously from some philosopher's stone. In this he differed from “the truth-seeking but erring philosopher; the ambitious prince, [and] the needy noble, who have believed in it” as well as “the designing charlatan, who has not believed in it but has merely made the pretension to it the means of cheating his fellows and living upon their credulity.”⁵⁹

Mackay tells us that “the useful science of chemistry is not a little indebted to its spurious brother of alchemy,”⁶⁰ but he ignores the far greater debt modern finance owes to alchemy. Someone who did not ignore the connection was Werner Sombart, who felt that Jews seemed to possess some magical ability to increase money. Pesch cites Sombart, when he writes,

We all know that the riches of Jews was not long-lived, because princes and cities pressed the sponge dry when it was sufficiently full. However, it is remarkable in how short a time Israel was able to restore the wealth and property that was taken from it; and it is also remarkable what huge sums were involved in such plunder.⁶¹

This “magical” wealth building capacity was based on usury. “All through the Middle Ages,” Pesch tells us in his gloss on Sombart, “there were wealthy Jews, but their wealth derived mostly from money-lending.”⁶² According to Sombart, the Jews

were already very active as entrepreneurs during the earliest days of the modern economic era. They played a leading role in the development of world trade and in the colonization of America. They were involved everywhere, especially in providing goods for the military and for war. Their being scattered about the world in all countries, and their status as foreigners, along with the restrictions which kept them out of many occupations drove them toward entrepreneurial pursuits. They were born “interlopers,” the “blacklegs,” the guild-busters, the free-booters, as we find them everywhere. Add to that, their often great wealth.⁶³

By dint of their long association with the credit business, the Jews made the instinctive discovery that with money one could actually make money. This leads Sombart to propose a tentative definition of capitalism: capitalism is the philosophical and political sanctification of usury. Because money-lending, according to Sombart, is “one of the most important roots of capitalism,” capitalism “derived its most important characteristics from money-lending.”⁶⁴

Because every Jew was part of a world-wide financial network, Jews could make money appear and disappear at will, something particularly useful “if the Jews in any locality passed through a storm of persecution.”⁶⁵ Jewish financial magic

enabled Jews to deposit their money wherever they wanted, and if at any time it

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became endangered, to remove it through the agency of some fictitious person or to transfer their rights in such a way as not to leave a trace of their former possessions. It may seem inexplicable that while throughout the Middle Ages, the Jews were deprived of their "all" at very short intervals they managed to become rich again very quickly. But regarded in light of our suggestion, their problem is easily explained. This magic became especially lucrative when later Jews began to speculate in securities and commodities.⁶⁶

It should come as no surprise to learn that "the Capitalist spirit was born at the end of the Middle Ages" because the late Middle Ages also saw the rebirth of magic. Capitalism had its origin in magic, specifically Jewish magic. According to Sombart, capitalism "is the spirit which, since the end of the Middle Ages, tears people away from the quiet, organically developed, loving, communal relationships; and it hastens them on the way to restless self-seeking and self-determination."⁶⁷

Pesch sees the origins of capitalism in alchemy and usury, and sees interest in those topics as "characteristic of the last centuries of the Middle Ages and the first centuries of the modern era."⁶⁸

The "lust for gold and money" first made a bed for itself in economic life; and it made its appearance in those mass phenomena which were characteristic of the last centuries of the Middle Ages and the first centuries of the modern era; in the treasure hunts, in alchemy, in grand schemes, and in usury charged for loans. Then this spirit also makes its way into economic life and finds there a fertile field. Now it was no longer satisfying the wants of living persons, but increasing a mass of money which became the immediate purpose of economic activity. This goal is indigenous to the nation of capitalistic organization. Thus, we may regard the quest for profit . . . as the objective purpose of the capitalistic economy, with which . . . the subjective motivation of the individual economic subject does not necessarily have to coincide.⁶⁹

There were, of course, other factors involved in the development of modern capitalism,

But it would have never reached the explosive dimensions for modern culture without the Jews. The causes which have been adduced thus far (discovery of the sea route to the East Indies, the redistribution in the power status of the state) are according to Sombart, not sufficient to explain the sudden decline of Spain, the sudden rise of Holland, the withering away of so many Italian and German cities, and the rise of others like Livorno, Lyons. . . Antwerp. . . Hamburg. . . Frankfurt, a. M. Instead, in Sombart's view it was mainly the Jews "who in strategic situations fostered the rise of economic activity where they emerged, and who helped bring about decline in places from which they emigrated."⁷⁰

Another way of saying that capitalism has its origins in magic is to say that modern capitalism is the child of moneylending because alchemy was simply an expression of the goyim's inability to understand how the Jews managed their money, which is to say, how they could make it disappear and reappear with no apparent explanation.

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According to Sombart,

Money-lending contains the root idea of capitalism. . . . In money-lending all conception of quality vanishes and only the quantitative aspect matters. In money-lending the contract become the principal element of business; the agreement about the quid pro quo, the promise for the future, the notion of delivery are its component parts. In money-lending there is no thought for producing only for one's needs. In money-lending there is nothing corporeal (i.e., technical), the whole is a purely intellectual act. In money-lending economic activity as such has no meaning; it is no longer a question of exercising body or mind; it is all a question of success. Success, therefore, is the only thing that has a meaning. In money-lending the possibility is for the first time illustrated that you can earn without sweating; that you can get others to work for you without recourse to force.⁷¹

The characteristics of money-lending are the characteristics of all modern capitalistic economic organizations: "The money-lending activities of the Jews were thus an objective factor in enabling the Jews to create, to expand, and to assist in the capitalistic spirit."⁷² Jews later became associated with commerce, but Jews "were never merchants so long as commerce, and especially intermunicipal and international commerce, remained partly a robbing exhibition and partly an adventure—that is to say, until modern times."⁷³

The occupation to which Jews devoted themselves in later times . . . was . . . money-lending, and I attach the greatest importance to the establishment of this fact. The economic history of the Jews throughout the centuries makes it appear that money-lending always played a very great, nay, an extraordinarily great part in the economic life of the people. We meet with it in all phases of Jewish history, in the age of national independence as in the Diaspora.⁷⁴

The fact that "a community of peasant proprietors is fine game for money lenders"⁷⁵ explains much of the conflict in the manufacturing centers of northern Italy during the Middle Ages and much of the conflict which arose in the German principalities with the advent of the money economy centuries later. That's because the Jewish outlook is inextricably modern and therefore at war with any traditional culture. The conflict which the Florentines failed to resolve in the 15th century got replicated in the German principalities a century later:

Look through the catalogue of "sins" laid at the door of the Jews in the 17th and 18th centuries, and you will find nothing in it that the trader of today does not consider right and proper, nothing that is not taken as a matter of course in every business. Throughout the centuries the Jews championed the cause of individual liberty in economic activities against the dominating views of the time. The individual was not to be hampered by regulations of any sort, neither as to the extent of his production nor as to the strict division between one calling and another: he was to be able to carve out a position for himself at will, and be able to defend it against all comers. He should have the right to push forward at the expense of others, if he were so able; and the weapons in the struggle were to be cleverness, astuteness, artfulness; in economic competition there should

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be no other consideration but that of overstepping the law; finally all economic activities should be regulated by the individual alone in the way he thinks best to obtain the most efficient results. In other words, the idea of free-trade and of free competition was here to the fore; the idea of economic rationalism.⁷⁶

Sombart concludes that in the struggles between Christian and Jewish merchants we have a "struggle between two different world views, or at least between two basically different if not diametrically opposed economic ideologies."⁷⁷ The opposite of the Jewish-modern-capitalist worldview is the ethical-Germanic worldview which found its fullest expression during the Christian Middle Ages, when:

the human person was at the center of things even insofar as economic interests were concerned. . . . Goods were produced and traded so that consumers could provide for their needs adequately and satisfactorily, but in such a way that producers and merchants also received their fair and adequate incomes. . . . The unrestrained, unlimited quest for profit was still looked upon during this entire era by most economic subjects as indecent and "un-Christian," inasmuch as the spirit of the old Thomistic economic philosophy still governed the way people look at things, at least officially. . . . Here. . . the religious or moral law always remained dominant: there was still no thought of cutting the economic world free from overall religious and moral bounds. . . . This was recognized everywhere insofar as the medieval spirit continued to prevail, as opposed to the spirit of Mammon in the strictest sense; in other words, it prevailed in such a way that all Christian economic activity in the old style was for this reason, if for no other, tempered by ethical considerations.⁷⁸

The antithesis of this worldview can be summed up in the word "capitalism." The Germanic-Christian tradition prized stability; Jewish-capitalism promoted revolution and "constant movement." "Economic rationalism" became the main-spring of the capitalistic system. Before this system could succeed, fundamental changes had to take place in the Germanic-Christian world, which came into being during the rise of Benedictine Europe on the ruins of the classical world. Full-blown capitalism could not come into existence until other external conditions had been fulfilled. The Jews played a major role because they were rich, dispersed over a wide area, and treated as strangers and semi-citizens, but the main condition for the emergence of capitalism was, as Fluegler put it: "The elimination of all ethical factors other than this in the individual's performance is what gives to the capitalistic mode of production and to capitalism its peculiar characteristic."⁷⁹

Revolution set in motion by "reformers" like Luther and Calvin helped, but after the capitalist ball started rolling, it took on a momentum all its own. As if by magic, "Spain and Portugal were emptied of their gold and England and Holland enriched."⁸⁰ That magic is traceable to the migration of the Jews, and their ability to take their easily moveable wealth with them wherever they went. This stood in stark contrast to the Germanic-Christian tradition, according to which wealth was a product of the soil, and ownership of land the source of all wealth.

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The mortgage would soon change that, which caused the German Jew Heinrich Heine to exclaim that James Rothschild was the greatest revolutionary of all time because he made wealth "portable."

The great India Companies might never have been founded and the great banks which were established in the 17th century might not so quickly have attained their stability, if the wealth of the Spanish exiles hadn't come to the aid of England, Holland and Hamburg.

Jewish wealth... enabled capitalistic undertakings to be started, or at least facilitated the process. To establish banks, warehouses, stock and share broking—all this was easier for the Jew than for others because his pockets were better lined. That, too, was why he became banker to crowned heads. And, finally, because he had money he was able to lend it. This activity paved the way for capitalism to a greater degree than anything else did.⁸¹

Capitalism, in short, is usury. Or as Ruhland puts it: "Capitalism represents simply a system of freedom to exact usury with the approval of the state" or "a social system in which freedom for usury is more or less totally accepted in law."⁸² Capitalists, Ruhland continues, "are usurers in the broadest sense of the word." And then, to make matters more precise, Ruhland defines usury as "every contractual appropriation of obvious surplus value."⁸³

Endnotes

- 1 C. M. Woodhouse, *George Gemistos Plethon: the Last of the Hellenes* (Oxford: Clarendon Press, 1986), p. 155.
- 2 Woodhouse, p. 154.
- 3 Woodhouse, p. 155.
- 4 Woodhouse, p. 154.
- 5 Woodhouse, p. 139.
- 6 Woodhouse, p. x.
- 7 Ibid.
- 8 Woodhouse, p. xi. "l'action de Plethon sur la Renaissance est certaine."
- 9 Woodhouse, p. 8.
- 10 Woodhouse, p. 10.
- 11 Curt S. Gutkind, *Cosimo De' Medici: Pater Patriae, 1389-1464*, (Oxford: Clarendon Press, 1938), p. 42.
- 12 Woodhouse, p. ix. "Plethon est entre en relation, non pas seulement avec des personnages secondaires... mais avec les coryphees [highest levels] de l'humanisme italien..."
- 13 Woodhouse, p. 60.
- 14 Woodhouse, p. 11.
- 15 Woodhouse, p. 16.
- 16 Woodhouse, p. 68.
- 17 Woodhouse, p. 70.

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- 18 Woodhouse, p. 73.
- 19 Woodhouse, p. 24.
- 20 Woodhouse, p. 25.
- 21 Woodhouse, p. 69.
- 22 Woodhouse, p. 24.
- 23 Woodhouse, p. 25.
- 24 Woodhouse, p. 27.
- 25 Woodhouse, p. 75.
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- 27 Gutkind, p. 241.
- 28 Tim Parks, *Medici Money: Banking, Metaphysics, and Art in 15th Century Florence*, (New York: W.W. Norton & Company, 2005), p. 68.
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- 31 Woodhouse, p. 60.
- 32 Woodhouse, p. 168.
- 33 Armadio Maria Luzzo, *The Life of S. Bernardine of Siena* (London: R. Washbourne, 1873), p. 52.
- 34 Ibid.
- 35 Armadio Maria Luzzo, *The Life of S. Bernardine of Siena*, (London: R. Washbourne, 1873), pp. 52-3.
- 36 "Emerald Tablet," *Wikipedia*, http://en.wikipedia.org/wiki/Emerald_Tablet.
- 37 Heinrich Pesch, *Lehrbuch der Nationalökonomie*, translated and edited by Rupert J. Ederer, (Lewiston, NY: Edwin Mullen Press, 2002), Volume IV, Book 2, p. 116.
- 38 Ibid.
- 39 Charles Mackay, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds* (London: Office of the National Illustrated Library, 1852), p. 107.
- 40 Mackay, p. 112.
- 41 Ibid.
- 42 Mackay, p. 116. Or maybe not. "The writers in the *Biographie Universelle* . . . deny that Raymond was ever in England, and say that in all these stories of his wondrous powers as an alchymist, he had been mistaken for another Raymond, a Jew of Tarragona." Or maybe so, p. 117 Robert Constantius in the *Nomenclator Scriptorum Medicorum*, published in 1515, says that "Lulli resided for some time in London, and that he actually made gold by means of the philosopher's stone in the Tower, that he had seen the golden pieces of his coinage which were still named in England the nobles of Raymond or rose nobles."
- 43 Mackay, p. 150.
- 44 Ibid.

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- 45 Mackay, p. 146.
- 46 Mackay, p. 147.
- 47 Ibid.
- 48 Ibid.
- 49 Ibid.
- 50 Mackay, p. 149.
- 51 Ibid.
- 52 Mackay, p. 123.
- 53 Mackay, p. 125.
- 54 Mackay, p. 126.
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- 56 Mackay, p. 127.
- 57 Mackay, p. 128.
- 58 Mackay, p. 153.
- 59 Mackay, p. 255.
- 60 Ibid.
- 61 Pesch, *Lehrbuch*, IV, 2, p. 142.
- 62 Ibid.
- 63 Pesch, *Lehrbuch*, IV, 2, p. 145.
- 64 Ibid.
- 65 Ibid.
- 66 Pesch, *Lehrbuch*, IV, 2, p. 140.
- 67 Pesch, *Lehrbuch*, IV, 2, p. 137.
- 68 Pesch, *Lehrbuch*, IV, 2, p. 140.
- 69 Ibid.
- 70 Pesch, *Lehrbuch*, IV, 2, p. 153.
- 71 Werner Sombart, *The Jews and Modern Capitalism* (New Brunswick, NJ: Transaction Books, 1982), p. 189.
- 72 Sombart, p. 109.
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- 75 Ibid.
- 76 Sombart, p. 153.
- 77 Pesch, *Lehrbuch*, IV, 2, p. 157.
- 78 Pesch, *Lehrbuch*, IV, 2, p. 158.
- 79 Pesch, *Lehrbuch*, IV, 2, p. 157.
- 80 Sombart, p. 188.
- 81 Ibid.
- 82 Pesch, *Lehrbuch*, IV, 2, p. 157.
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Chapter Nine

The Turning of the Tide

In August 1447, Filippo Maria Visconti died, and the struggle over who would become the next ruler of Milan began. One day after his death the people of Milan proclaimed the Ambrosian Republic, and the condottiere Francesco Sforza began his campaign to occupy the throne. In October 1448, Sforza signed an agreement with Venice, which agreed to assist him in his claim to become Duke of Milan. But then one year later in 1449, Sforza terminated his alliance with Venice, which now supported the Ambrosian Republic, and threw his lot in with Florence, which meant with Cosimo. Cosimo, who had been openly supporting Sforza since 1446 considered the territorial integrity and strength of Milan as the key to preventing Venetian hegemony in northern Italy and protecting his regime in Florence. And the key to preserving Milan was Francesco Sforza.¹

In 1450 Francesco Sforza, backed by Medici money, conquered Milan. In April 1454, Sforza and Venice ended hostilities and signed the Peace of Lodi, forcing Najemy to conclude that "Cosimo's daring gamble proved in the end successful." In exchange for the onerous tax burden Cosimo placed on the Florentine people, he got access to Sforza's army in Milan, which was "now ready and willing to protect the Medici regime against its internal enemies."²

The Florentines, in other words, got chains in exchange for their onerous taxes, something that became apparent during the coup of 1458. Early in 1458 the Signoria reinstated the Catasto, a move which threatened the wealthy families with heavier taxation. When Cosimo tried to create a permanent legislative body of Medici supporters to overrule this move, Archbishop Antoninus objected, but his objections were set aside when Cosimo's operatives called for a popular referendum or *parlamento*. To ensure that the *parlamento* came to the right conclusion, Cosimo met with Nicodemo Tranchedini, the Milanese ambassador, who assured him of Sforza's willingness to send troops if Cosimo needed them. With that assurance, Cosimo rounded up the opposition leaders, tortured some and placed the rest under house arrest.

Cosimo had made contact with Sforza through their mutual friend Pope Eugenius IV and had been supporting him tacitly since 1446. Eventually the alliance with Sforza outlasted the relationship with the pope who made it possible. Four years before the death of Visconti, Pope Eugenius

abruptly ended his nine-year stay in Florence and returned to Rome, where he abruptly fired Roberto Martelli, the manager of the Medici Bank's Rome branch, from his position as director of the papal depository.³

Pope Eugenius announced the appointment in 1446 of Antonino Pieozzi as archbishop of Florence. Antonino was the son of a notary, which meant that he belonged neither to the oligarchic families nor to the ranks of the new men the Medici promoted to keep the oligarchs in check. Antonino was a Dominican, and a church reformer, who would become a wildly popular man in Florence, where he was considered a saint, a scholar, and one of the leading theologians of the 15th century. In his *magnum opus*, *The History of Economic Analysis*, Joseph A. Schumpeter (1883-1956) praised St. Antonino as being "the first man to whom it is possible to ascribe a comprehensive vision of the economic process."⁴

In his *magnum opus* on moral theology, variously titled *Summa moralis* or *Summa theologica*, St. Antonino sums up the tradition of moral theology including its pronouncements on economic issues "in incredible detail."⁵ Economics was discussed within the framework of contracts, largely borrowed from Roman law but also in connection with avarice.⁶ Antonino condemned the truck system, whereby workers were paid in the products which they produced because their employer couldn't sell them, debasing the currency, and withholding wages, as a sin that cried to heaven for vengeance. Antonino blamed the employer for the first and third abuses "because they accepted no responsibility beyond paying the contractual wage and tolerated license in the workshop."⁷

Under Antonino the Church's teaching on usury reached its fullest expression:

His thought marks the summation and end of the first period in usury analysis. Yet by being more systematic, Antoninus is more severe than many of his predecessors. As the late 17th century is to draw all the departures from the usury prohibition together in a final all-inclusive departure, so Antoninus draws together all the strict rules of the early usury teaching into a tight set of rules. No later writer of note will be as severe, as uncompromising, as true to the logic of the earlier conceptions as he.⁸

In the series of sermons he preached, St. Antoninus declares that usury is against the natural law because the use and ownership of consumptibles is indistinguishable; because the owner tries to appropriate the borrower's industry; because money cannot bear fruit. The multiplication of money by usury "seems miraculous, but in truth it is diabolical."⁹

St. Antonino's sermons were directed at Florence's most prominent usurer, Cosimo de Medici. Unlike other sins, like adultery and murder, which "only last for a certain time," usury "ever breaks and consumes the bones of the poor, night or day, on feast and feriae, sleeping or waking it

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works and never ceases.”¹⁰ Usury, as a result, “is a vice that lasts into old age [Cosimo de Medici] and entangles the sinner up to the hour of his death.”¹¹ The reference to the reluctance of the Medici to make out their wills is inescapable here. Usury, as a result:

is a peculiarly difficult sin to repent; for its forgiveness demands restitution of the profits, and indeed unless the man is dying, absolution is not to be given, until restitution is made. But restitution seems too hard to a prosperous usurer. “And commonly such die as brute animals, or some terrible judgment happens to them, and they are sometimes seized by demons.”¹²

In another reference that his hearers would have associated with the Medici, Antonino claims that “usury not only damns the original sinner but also his heirs, who are obliged to restitution and commonly do not fulfill their duty.” To make the reference to the Medici even clearer, Antonino claimed that he was personally acquainted with one family which has been “damned for four generations by its failure to return the goods of a usurious ancestor.”¹³ Usury generates transgenerational woe. To illustrate this, Antonino describes a vision of hell, in which he saw both father and son, each blaming the other for his misfortune, the former because he had not made restitution in order to help the latter, the latter because he was damned by his father’s bequest (my emphasis).¹⁴

Usury was deeply entrenched in banking and the textile industry in Florence. In addition, addiction to usurious returns had created a rentier class made up of widows, wards, and nobles. The crucial issue was risk. Easy access to usury had created an atmosphere that destroyed both charity to the poor and a willingness to invest in business opportunities that involved shared risk. Both St. Bernardine and St. Antonino insisted that any investment which lacked risk was a form of usury.¹⁵

Another indication of St. Antonino’s economic sophistication was his understanding of the crucial role which the just wage played in any economy. In spite of the fact that “there is probably no other class of economic contracts in which the relative bargaining powers of the parties tend to be less evenly balanced than in the case of the hire of manual labor,”¹⁶ the systematic examination of the question of the just wage was ignored until the 15th century when the suffering of the worker made it inescapable.

If a single scholastic author is to be credited with having called attention to that form of exploitation, it must be Antonino. His knowledge of labor condition in the Florentine textile industry, with its abuse of economic power on the part of employers, cased him to return to this subject repeatedly in his *Summa Theologica*, as well as in his *Confessionale*.¹⁷

Like Aquinas, Antonino felt that paying a just wage, like paying a just price, was an act of justice. He also understood that financial necessity rendered the worker “often so eager for a job that he would accept a starvation

wage (*Hungerlohn*) inadequate to support himself and his family above the bare subsistence level.”¹⁸

The laborer seeks employment to provide for himself and his dependants. For a labor contract to be lawful, its terms must be just, and there must be no fraud on either part. The wage should be based on a common estimate. To pay less is contrary to the equality of justice; it is like buying a commodity for less than the just price owing to the need of the seller. Laborers are poor people and easily exploited. Employers sin not only by paying them too little but also by paying them too late or in bad money. . . . The employer is not excused “if the laborer agrees in order not to be out of a job, but to earn something, even if not enough.”¹⁹

St. Antonino integrated the idea of a just wage into a hierarchical structure that derived its meaning from the divine plan for man’s life on earth. According to that plan, “Material well-being . . . was a means to an end; the purpose of a fair wage was to enable the worker to earn a decent living, the purpose of a decent living was to enable him to lead a virtuous life, and the purpose of a virtuous life was to enable him to achieve salvation and eternal glory.”²⁰

Unfortunately, the scholastics opposed the right of workers to organize, thus making it virtually impossible for the worker to demand a living wage. “The scholastics were not kindly disposed toward guilds, especially not if they tried to control prices or wages.” In fact, “labor unions. . . were illegal in Florence and the scholastics. . . tended to brand them as unlawful ‘conspiracies.’”²¹

In spite of the failure of the Florentines to implement his proposals, St. Antonino integrated the related but separate discussions of usury, money, and labor into a unified whole when he wrote that “money insofar as it is the price of purchasables confers no gain, except through the industry of the user.”²² In this one sentence, St. Antonino takes the insights of Locke, Smith, and Marx, that labor is the source of wealth, and integrates it into a philosophical framework which could have served as a platform for a genuine science of economics and not an economic justification for capitalism (or anti-capitalism) which is what the world inherited from the English three centuries later.

St. Antonino also solved Smith’s paradox of value (water is essential to life but it has no value, but diamonds, which are inessential have great value) three centuries before it appeared in the *Wealth of Nations* by claiming that, although labor was the source of all value, price was equally a function of labor and supply and demand.

St. Antonino was building on the writings of St. Bernardine, who claimed “that value is determined by a good’s utility, scarcity,” who was in turn building on the thought of St. Thomas Aquinas, who claimed that “the value of goods “depends on their usefulness to man,”²³ who was echoing

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Aristotle, when he wrote that “human need is the single universal standard of human measurement.”²⁴

John Maynard Keynes once claimed that the conventional wisdom of the man on the street was ruled by the forgotten maxims of defunct economists. The same is true of Smith’s famous paradox of value, which had been formulated three centuries before Smith articulated it by Saints Bernardine and Antonino. St. Bernardine taught that scarcity was an essential element in determining value.²⁵ In a passage which anticipates Smith’s paradox of value, St. Bernardine argues that “the elements, fire, earth, air, and water, are vitally necessary for human life, but they are common and so are valued less than gold or balsam.”²⁶ St. Antonino takes this insight and integrates it into the concept of the market as the determiner of price by formulating the principle that “the price of things is not from the affection or utility of single persons, but from their common estimation.”²⁷ In other words, “A good is worth as much as human need needs it.”²⁸ St. Antonino takes the notion of price to its logical conclusion by claiming that it can only be established in the market place. The market place is where supply and demand meet, and absent manipulation of the market, it is also where the just price comes into existence under the moral law, which prohibits the stronger party from exploiting the weaker.

The scholastics allowed for the workings of the market place when they argued that the just price is “thoroughly variable, neither precise nor fixed.”²⁹ Aquinas felt that a small deviation from the theoretically absolute just price is never sinful, but some Scholastics claimed “that the buyer and seller may lawfully, even in the moral order, take advantage of each other up to one half of the just price. Their reasoning seems to be that the just price admits of that much imprecision without justice itself being violated.”³⁰ If then, the just price is the market price, how then is economic injustice possible? The capitalist answers this question by ignoring “mixed will” saying that any contract or price is just because both parties agreed to it. The Scholastic answers this objection by claiming that “common, not individual, need is the measure of value.” That means that “the value of a good ought to be considered not according to the necessity of the buyer or seller, but according to the necessity of the whole community” because “value is social.”³¹ This means that “labor will influence cost and so the supply, but no scholastic teaches that it is the sole determinant of value.”³²

Najemy claims that Antonino’s “tough-minded independence kept him from becoming a pawn of the regime.”³³ In 1458, one year before his death, St. Antonino stood up to Cosimo, who would die five years later, when he used the threat of Sforza’s troops to put down a rebellion against the taxes he imposed on Florence in a vain attempt to make up for a whole series of bad loans to princes. Cosimo’s alliance with Sforza was mutually

beneficial but deleterious for the states they represented.

In 1443 Cosimo instituted a graduated income tax, called a *graziosa*, which ranged from 4 to 33 1/3 percent depending on income, as well as a small capitation tax.³⁴ Sforza got enormous amounts of money in loans from the Medici Bank. By the time he died Sforza "would owe the Medici Bank something in the region of 190,000 florins, a sum far beyond repayment."³⁵ Cosimo got civil unrest, but also military support to suppress popular dissent, support he made use of in 1458 when the oligarchic families rose up in protest against his taxation policies.

Cosimo's tax policy was a function of Florentine foreign policy, and in the 1440s, that meant support of Francesco Sforza to keep Venice in check. To implement his decision to support Sforza's claim on the throne in Milan, Cosimo opened a branch of the Medici Bank in Ascona. The move was political and would cost the Medici a fortune and hasten the decline of Medici banking operations throughout Europe. What was true of princes also held true for princes of the Church:

From the 1460s onwards, the Medici bank was lending out more to the Curia than it was taking in with the commission on papal tributes. All too soon, the classic situation would be reached where the indebted client has the upper hand, the bank is too deeply involved to pull out.³⁶

This situation only increased the Jews' power in Florence because by "pursuing a policy which was both expensive and unpopular, Cosimo dared not risk still greater odium by depriving the humbler citizens of the relatively easy credit which they had been getting from the Jews."³⁷

The alliance with Sforza also necessitated new agreements with the Jews, which were signed in 1448. The new agreements with the Jews provided payday loans to the *popolo minuto* at usurious rates. The agreement with the Jews in turn allowed Cosimo to continue the labor policies of his predecessors; wages should be kept low; workers forbidden to take up posts abroad:

The Commune's labor policy was based on the assumption that enough labor was always available, and that wages should be kept low to prevent any rise in prices. Occasionally, workmen were forbidden to take up posts abroad in case the "secret" should leak out; and again the State sometimes tried to attract workmen from abroad.

As a final insult to the citizenry whose liberties he trampled underfoot, Cosimo had the *balia* replace the old title of "priors of the guilds" with the "priors of liberty," a change which Machiavelli said was made "in order to have at least the name of the possession that they had lost."³⁸ Benedetto Dei claims that "the city of Florence suffered such a blow and shock that it remained stunned and bewildered for more than eight years from 1458 to 1466."³⁹ The people would rise up against the Medici in 1466 and in 1478 but they would not be able to restore the republic until

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1494 when Piero the Unfortunate, Cosimo's great grandson, fled in disgrace after attempting a deal with the King of France. The once proud oligarchic families had been intimidated into silence by Cosimo and became Medici courtiers, albeit rich courtiers, who devoted their efforts now to conspicuous consumption, especially when it came to housing.

Endnotes

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- 6 Ibid.
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- 20 de Roover, *Bernardino*, p. 27.
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- 24 Ibid.
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- 26 Noonan, p. 85.
- 27 Noonan, p. 82.
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Chapter Ten

The London Branch

Late in the summer of 1453, Simone Nori, the branch manager of the Medici Bank in London, rode into the Cotswolds to buy wool. Nori's reports are full of the sunny optimism that would seem appropriate to summer in the Cotswolds. Things were going well.

London had become a branch of the Medici Bank in 1446, just as Cosimo was getting ready to commingle his fortune with the fortune (in a slightly different sense of the word) of Sforza and assist his aspiration to become Duke of Milan. On March 24, 1439, the Medici Bank opened a branch in Brugge, the center of the Flemish cloth industry. By the time the Medici branch opened, Cosimo's agent, Bernardo di Giovanni d'Adoardo Portinari, descendant of the Beatrice that Dante found so enchanting, had been there for three years.

Wool was still England's main article of export. Exports of cloth were increasing, but the export of wool was steadily declining, although it was still for sale. The Florentines were still hungry for it, and they still had the money to pay for it because as of the early 1450s Medici funds weren't tied up in loans to the king.

Before long, all of this would change. Just as surely as the sunny days of summer turned into the rainy days of fall, Medici money got caught up in the usury cycle that eventuated, as it always had in the past, in bad loans to princes, who inevitably defaulted on them when they got in over their heads.

Six months later, the news was still good, as when Nori learned to his delight, that the provisional *ad hoc* arrangement with the Medicis had been turned into an ordinary partnership on March 25, 1454. Nori could still claim that he was well-liked in the city, even though he was an Italian, and he still had credit.

By 1456, the situation had changed completely. The Italians had become a hated minority. The main reason was war, and the debts that inevitably accompanied it. In 1455 the War of the Roses broke out. To get the loans they needed to wage war, the English princes granted "Lombards" like Nori tax-farming privileges which made them as hated in England as the Jews, who had been expelled from England in 1290, were in Italy. The English merchants had always regarded their Florentine counterparts—people like Nori—"as unwelcome intruders and sought by all means, fair and foul, to exclude them from control of the carrying trade."¹ Now the English had another reason to hate the Italians, namely, usury. Towards the end of 1456 and the beginning of 1457, "feeling against the Italians, stirred up amongst the people by Parliament and the English dealers rose to its highest pitch"² and resulted in physical violence against the Italian merchants.

De Roover dates the beginning of the decline of the Medici Bank to the death of Cosimo in 1464, but the beginning of the decline began in

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1455: "From 1455 onward, the Medici Bank ceased to grow and, as standing still is impossible in a dynamic world, it soon entered into a period of decline, which began with the death of Cosimo (1464) if not sooner."³

De Roover does not mention the War of the Roses in this context, but in retrospect it's difficult not to see the connection. Wool never ceased being profitable for the Medici. Everything would have been fine if the Florentines had stuck to the wool business, but wool was bound up with politics in England, and politics, was bound up with debt and therefore usury.

To finance the War of the Roses, the houses of Lancaster and York needed to borrow money. To get the money they had to grant the Italians licenses to export wool. If Edward IV granted the Italians licenses to export wool, he antagonized the Merchants of the Staple, the English wool guild, which had a monopoly on wool production.

To gain legitimacy, in 1463 the usurper Edward IV signed into law a statute which effectively abolished the licenses the Florentines needed to export wool when he forbade "aliens to buy up wool and any other person, alien or denizen, to ship it to any place other than the staple town of Calais."⁴ This meant the king had nothing of value to offer the Medici Bank in exchange for their loans. So, in order to keep Medici money flowing into English coffers, he passed another law one year later "which exempted wools from staple regulations, if they were 'to pass out of this Realm by the Straits of Marroch,' and thus restored the license system as it had existed before."⁵

At this point, the chain of events was set in motion which led to the collapse of the London branch of the Medici Bank. To obtain permits to export wool, Simone Nori and his successor Gherardo di Bernardo Canigiani (1424-1484) had to lend more and more money to the king. Instead of paying back his loans, Edward IV paid off his debts by remitting the four mark per hundredweight duty on the wool which the Medici needed to import to keep their wool factory going. To keep the wool supply going, Nori and, later, his successor Canigiani had to borrow money to keep the English branch running. Needless to say, they had to pay interest on that money. As a result, "losses soon were piling up and working capital became impounded in frozen credits which impaired earning still further."⁶ The result was the 15th century equivalent of a lose-lose situation. The Medici had to lend the king money to finance his wars. That meant that the principal of the loan was destroyed along with any possibility of paying interest on the loan. The only thing the king provided was tax credits, which meant that the Medici London branch was chronically short of cash. The only way the Medici could get cash out of the king was by lending him more money, as they did when they lent him 2,600 pounds sterling in November 1468. The Medici could sell the king luxury goods like silk, but they had to lend him money to do that too, as they did in July 1468, when they lent Edward IV 1,000 pounds sterling so that he could buy silk to outfit his sister's wedding party when she married Charles the Bold.⁷

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Nori and Canigiani had to lend the king money in the hope that the king would pay back the money they had previously lent them. When he paid them in tax credits instead, they had to borrow money to keep the London branch going. Because the money was wasted on war, the kings never had enough money either, not even under their arrangement with the Medici. You know it's a bad deal when both parties to the transaction are going broke.

Before long a note of desperation began to creep into both Edward IV's and Henry VI's pleas for money. Having bled the Florentine bankers dry, and finding themselves still in debt, they turned to magic. In 1455, King Henry VI "granted four successive patents and commissions. . . to find out the philosopher's stone and elixir 'to the great benefit. . . of the realm and the enabling of the king to pay all the debts of the crown in real gold and silver.'"⁸

Both the houses of York and Lancaster were in debt to the Medici Bank when the war broke out. This was *a fortiori* true of Edward, Earl of March, the Yorkist usurper, who claimed the throne as Edward IV after his victory at the Battle of Towton in 1461. Eventually the king's distress became his banker's distress when he defaulted on his loans. In the interim, he and his opponent in the War of the Roses tried to find their way out of debt by looking for the philosopher's stone. Conflating the philosopher's stone with transubstantiation, King Henry VI issued alchemy licenses to clerics reasoning that "they were such good artists in transubstantiating bread and wine in the Eucharist, and therefore the more likely to be able to effect the transmutation of baser metals into better."

No one stepped forward to rescue the king with the philosopher's stone; no matter what stories were circulating, no king was ever rescued from debt by its magic. What King Henry VI and King Edward IV learned the hard way is that you can't borrow your way out of debt. The English crown was an early victim of the debt/deflation cycle, the mechanics of which would only be discovered 500 years later. What the Medicis learned the hard way is that you can only collect a debt from a king by lending him more money. Since the Medicis practiced fractional reserve banking, their money was created by lending in the first place, which is to say, by magic. And so it disappeared as magically as it had come into existence.⁹

Under Cosimo's watchful eye, the Medici Bank became the largest banking house of its time and, more than that, synonymous with the Renaissance. But the Medici Bank was never anything other than a colossus on feet of clay. Another word for those feet of clay was usury. Its trajectory was inexorable and unforgiving, as other prominent banking families, like the Bardi and Peruzzi had discovered, but no one, least of all Cosimo, the shrewdest and most long-lived of the Medici, seemed capable of learning what seemed like obvious lessons from historical examples as recent as one century in the past and as close as his oligarch neighbors in Florence. De Roover claims that Cosimo was a good judge of character, but his choice of Tommaso Portinari to head the Bruges branch of the bank belies that claim, especially since he claims that "Portinari's recklessness caused

the crash of the London branch."¹⁰

De Roover makes the crash seem like a matter of personal failing, but the issue was more complicated, as he admits when, changing metaphors he writes that "the tide turned" after Cosimo's death, "and his successors lacked either the strength or the ability to stem the flood and were carried off by the current."¹¹ Branch managers like Portinari, Nori, and Canigiani may very well have been scheming weaklings, but the financial tide they swam in was so strong that even the strongest swimmer would have been swept out to sea in it. The mystery, however, remains: why did someone as perspicacious as Cosimo de Medici allow his bank to be wrecked by the same practices which had caused the ruin of so many banking houses before his own?

As if unsatisfied with his own explanation, de Roover tries to pin the blame on the "congenital defect" of "the financial type of sedentary merchants," who would invariably "drift from private banking into government finance."¹² The Medici got caught in this drift even though they

had before their eyes the example of the Acciaiuoli, the Bardi, the Frescobaldi, the Peruzzi and other Florentine companies which had been wrecked by loans to English kings and other sovereigns. Although the Medici were well aware of this danger, they were unable to steer clear of it and foundered on the same reef.¹³

De Roover's explanation only deepens the mystery and makes it seem as if Medici, like so many Florentine bankers before them, had become entranced by some English siren. The explanation is simpler than that. The Medici, as well as other oligarchic Florentine families like the Strozzi, had skimmed the cream off of a number of extremely profitable ventures: 1) the first industrial revolution, which is to say, the profits from the Florentine wool and silk industries and 2) the exchange business at the heart of the financial revolution, which included handling the finances of the papacy, and 3) the first attempts at funding the Florentine state debt. As a result they had accumulated an enormous amount of money which had no possible corresponding productive use because possibilities for investment hadn't increased as quickly as the money had.

As a result, the Florentine oligarchs got involved in usury. To lend out the money they had acquired at the expense of the workers they deprived of a just wage, the oligarchs invariably turned to princes, who invariably gobbled up all their money and, after squandering it on extravagant court spectacle, and (what is worse) war, just as invariably defaulted on their loans. What the Medici and their unhappy predecessors failed to see is that the princes were suffering from the same lack of investment opportunities which had caused the Medici to lend to them in the first place. Blinded by the princes' power to appropriate money through taxation, which neither party saw as a function of labor, the Medici poured their money down this rathole and never saw it again. Failure was programmed into this project from the inception. Given war's ability to destroy value, there was no way that the prince could ever repay even the principal in a non-usurious loan with no

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interest attached to it, much less the principal plus the interest rates princes in the Middle Ages were accustomed to paying.

Why someone as clever as Cosimo was unable to see this is anyone's guess. The most plausible explanation is the moral one: *auri sacri fames*. Cosimo was blinded by his vices, which is to say, his avarice, which is to say, his lust for gold. He was far from being the only man in history who had become "intoxicated, obsessed, haunted, humbled, and exalted over pieces of metal called gold."¹⁴ In fact,

Gold has motivated entire societies, torn economies to shreds, determined the fate of kings and emperors, inspired the most beautiful works of art, provoked horrible acts by one people against another, and driven men to endure intense hardship in the hope of finding instant wealth and annihilating uncertainty.¹⁵

From an economic standpoint, doom was inevitable once so much gold was concentrated into so few hands. The surplus value which had been appropriated from the first industrial revolution was so great that it outstripped any of the investment possibilities which existed at that time. This would have been a different story with a happier ending if the oligarchs had not appropriated surplus value from the worker in the first place—in other words, if they had paid a decent living wage. Similarly, if they had avoided usury and concentrated on equity investments which shared the risk, they could have demanded whatever return they wanted. Usury is attractive to investors because the risk is supposedly eliminated by being unjustly allotted to the weaker party, but this turns out to be an illusion as well. Loans to princes were certainly fraught with risk because the prince had the power to default with impunity. The logical place to invest, in other words, was the wool industry, the only source of consistent profit over three centuries of Florentine history, but this is precisely what did not happen. In fact,

Many Florentine aristocrats, truly worthy of that name by the late 16th century, withdrew from commerce and industry in favor of investments in land and turned their talents toward winning posts in the ducal household or the bureaucracy.¹⁶

The result was economic decline that lasted centuries. Almost 80 years after his death, the decline, which Cosimo's policies set in motion, was continuing apace. The Florentine bankers continued to make the same mistake. Instead of investing their money in the productive capacity of their own people, they continued to lend to princes, thus kissing it good-bye. In 1583, the Florentine bankers were creditors to the Spanish crown to the tune of 300,000 ducats. That meant the crown owed them 22,000 ducats interest in the first year alone. "Needless to say," Menning writes, in a story which repeats itself ad nauseam in Florentine financial history, "the Spaniards defaulted and the monte never recovered all its principal, let alone any interest."¹⁷

Choosing usury over investment, including higher wages in the wool industry was quite literally starving Florence to death, but the oligarchs were too rich to notice. The wool industry was the source of Florentine wealth, and yet by the early

17th century, the number of wool workshops had dropped from 84 to 46, resulting in the “impoverishment of the most marginal classes.”⁸ In the meantime, the public debt continued to grow and those who were least capable of affording it were forced to borrow money to pay for the taxes which went to the oligarch rentier class in the form of interest payments. By the time the Medici line died out in the 18th century, the public debt stood at 14 million scudi.⁹

By 1462, the year in which the first *monti di pietà* (or credit union for the poor) was established in Perugia, the oligarchs of Florence had accumulated so much wealth they didn’t know what to do with it. According to Salter, “There was no likelihood of Florence attempting to follow the example of Perugia: to establish a Mons Pietatis at that particular moment, at the cost of revoking the Jewish agreements, would have been to run a very serious risk.”¹⁰ What followed was an orgy of ostentatious spending as the oligarchic families competed with one another to see who could build the most elaborate palace in the center of town.

Instead of providing for the poor as Perugia had done, the Florentine oligarchs simply moved them out of the center of town. By the 1462, the 15th century version of urban renewal was causing unrest among the *popolo minuto*. The Pitti palace in particular caused much ill feeling.

As a result of extensive private building by individual families of means, a serious shortage of accommodations for the masses had arisen. The new palaces required huge sites which could only be acquired by tearing down the older dwelling houses. The palace of the Pitti caused much ill feeling for this reason. The Pitti caused whole streets to be pulled down in order to construct the huge new palace. No provision was made for the “refugees.”¹¹ Filippo Strozzi’s palace was even grander and more expensive:

Whereas the “average” upper-class palazzo cost between 1,500 and 2,500 florins, Filippo and his heirs spent an astounding 40,000 florins on a palace that lacked ground floor shops or any commercial space. Although equivalent in height to a modern ten-storey building, it consists of only three floors and a dozen (albeit large) rooms intended for just the immediate families of two brothers.²²

Other builders too suffered criticism. Filippo Strozzi’s great palace struck at least one contemporary as a vainglorious tempting of Providence, as his death before its completion patently demonstrated.²³

So vast was [Filippo] Strozzi’s wealth, that even with the huge expenditures on the palazzo he began building in 1489, he hardly knew what to do with it all: after his death, over 52,000 florins in cash was found in sacks stored in his house.²⁴

From 1360 to 1420, when the oligarchs accumulated much of the wealth that was lying around uselessly in sacks of gold by the end of the 15th century, the population, which is a function of food supply, declined from 55,000 to 38,000 people. The main reason for this demographic collapse was the contraction of the wool industry. By the middle of the 15th century, cloth manufacturing in England was expanding, and that naturally led to a decline in the exports of raw wool to Flor-

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ence. Faced with uncertain supplies of high quality wool, the Florentine cloth manufacturers gradually shifted to silk production.

Shifting to silk production had an economic downside because "manufacturing silk did not require a large force of unskilled workers. Thus the rise of this new textile industry could not replenish the population loss caused by the decline of wool production."²⁵ The crucial economic factor was, once again, wages, because "the proportion in production costs of labor to materials was the inverse of that in woolen cloth production."²⁶ When silk production displaced wool production, two things happened: 1) wealth was concentrated once again into fewer hands and 2) the economy contracted because wages dropped.

With the decline of the labor-intensive wool industry and the rise of silk and other forms of skilled artisan labor, Florence's economy underwent a major shift. Unlike the 14th century, in which a huge amount of wealth was paid in wages to a large working class, in the 15th century, although skilled artisans were in great demand and enjoyed rising incomes, the declining demand for unskilled labor meant stagnating wages for the working population.

Stagnant wages might have been tolerable if government had kept expenditure under control, but during this period the opposite happened. Cosimo's foreign policy demanded constant war, and the tax burden was placed squarely on those who could afford it least: "Heavy direct taxation of the dominion was gradually transferring wealth from the contado and district communities to feed the city's public debt (whose interest bearing shares were owned almost entirely by Florentine citizens)."²⁷

Hence, the demographic contraction which was still evident a century later. Not only were families not being formed among the proletariat, workers were fleeing because they were hopelessly in debt. In September 1539,

The officers of Por Santa Maria, the master wool-weavers' guild, received permission from the Magistrato Supremo . . . to "recall and bring back" into the city a number of master weavers whose flight from Florence "because of debt" was largely responsible, in the eyes of the Magistrato, for the hard times in the cloth industry. The same magistracy became alarmed at the departure of debt-ridden *contadini* from the land and deplored the resulting waste of arable land and the effect on the Florentine food supply. The peasants had fallen into "calamity and misery" because of the "universal sterility and penury of the present year 1540," and so the Magistrato went to the unusual length of declaring an 8-month moratorium on the private debts of *contadini* in an effort to entice those who had left to return, and to persuade those who were wavering to remain on their lands. Any creditor who pestered them for repayment would be subject to a fine of one hundred lire.²⁸

The situation had already reached crisis proportions in the year Cosimo's father died. An unskilled worker employed full time earned enough to support himself and one other person, but families of three and four with a single income could not make ends meet even with stable prices. Living costs in families of four

or more also exceeded the incomes of skilled workers with higher earnings. Of 909 household heads identified in the 1427 *Catasto* as workers in the wool industry, 53% were deemed miserables, too poor to pay any tax, and they included 57 percent of wage-earners, 64 percent of unskilled Ciompi, and 43 percent of artisans (but fully 78% of weavers and spinners who worked at home). Stagnant wages in the building and woolen cloth industries almost certainly depressed other workers' incomes as well, and when prices began their slow steady rise toward the end of the century, the erosion of real wages created endemic poverty within the working class.²⁹

When Cosimo came to power seven years later, his policies exacerbated an already dangerous situation. The main cause of Florence's economic decline was failure to reinvest in the wool industry. What Najemy said about the silk industry was *a fortiori* true of Florence's banking industry because usury allowed an even greater appropriation of value from the laborer than low wages.

Another cause was the gradual drying of investment funds: "Investors continued to come from both the elite. . . and the popolo and woollens continued to be exported throughout the Mediterranean, but not in the same quantities as in the 1360s and far fewer than before 1340."³⁰

The main reason for the decline in investment was usury. Why should someone share the risk when he could be guaranteed an enormous return by simply lending his money to someone who was willing, with a divided will albeit, to shoulder all the risk and provide a much higher return than was available in the wool industry? St. Bernardine and St. Antonino were right. Usury corrupted both charity when it came to the poor and legitimate enterprise when it came to the mercantile classes. When the Florentine investors took on the burden of risk, and in collaboration with the industry brought about innovation, "the industry recovered," as it did at mid-century when the wool producers "abandoned their former concentration on luxury cloths and converted to lower quality, cheaper cloths from Mediterranean wool, for which they found profitable markets especially in the Ottoman Empire."³¹ Because it gave the illusion of risk-free high returns, usury thwarted genuine economic innovation in response to changing market conditions. If their money had been at risk in joint ventures, the oligarchs would have been motivated to find new sources of high quality wool, for example, from Scotland and Ireland, as well as new outlets for lower quality cloth of the sort they found in the Ottoman Empire. The Medici had no branches east of the Rhine, an area which could have become a fertile source of both marketing and investment possibilities.

Unfortunately, the complacency and lassitude which usury spread in its wake prevented the Florentines from engaging in the daring type of joint venture which the Portuguese were launching with the help of Pisan and Genoese sea captains. It was these voyages, first around the tip of Africa to India and then West to the New World, which would usher in the new age of economic development, a

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development in which the Florentines took no part. It's easy to blame this failure on Florence's position as a land-locked city state in the middle of a mountainous peninsula which by the nature of its geography was inhospitable to commerce. But this same geographical handicap did not hinder commerce with Flanders and the Levant in the early and high Middle Ages. Usury is a more likely explanation for this missed opportunity. The Florentine oligarchs were mesmerized by their own ill-gotten gold and lulled into the sense that their money would exert the effort they no longer felt inclined to exert.

Instead of facing the economic consequences of his actions head on, Cosimo, like the English sovereigns who sent out announcements begging alchemists to settle in their territory, withdrew into the world of magic he had created for himself with the money he had taken from Florence's working class. After crushing local opposition to Medici rule with the threat of Sforza's troops in 1458, Cosimo withdrew from public life. His power was so uncontested that he no longer had to fear being deposed.

In the spring of 1459, one year after Cosimo had put down the last remnant of oligarchic opposition to his regime, Pius II, the Sienese humanist Aeneas Sylvius Piccolomini, became pope and was welcomed as Cosimo had welcomed other popes before. Pius II considered Cosimo's tyranny "intolerable,"³² but, unlike St. Bernardine and St. Antonino, who attacked humanism as a reversion to paganism, Piccolomini prided himself on his humanist credentials, which he came by honestly by dint of his magnificent Latin prose. Machiavelli described the regime which emerged in 1458 as an "unbearable and violent" kind of rule in which "a few citizens plundered the city" and used "terror" and "fear" in order periodically to "retake power."³³

In 1460 Cosimo founded the Platonic Academy which had been on his mind ever since he had met George Gemistos in 1439. By getting Argyropoulos to come to Florence in 1456 he was able to form a circle of young men who delighted in philosophy and philosophic discussion. This circle often gathered at the house of the *pater communis studiorum* and debated with Cosimo on such questions of moral philosophy as—"Does the *jus positivum* form part of moral philosophy?"³⁴

Cosimo may have triumphed over his political enemies in 1458, but his financial situation was more precarious than ever. The reason was usury. By the late 1450s Cosimo was starting to hear ominous signals from England. By 1457, "losses had already devoured all the capital"³⁵ of the English branch leading to the liquidation of the partnership of March 24, 1458. When Edward IV ascended to the English throne in 1461, Canigiani must have breathed a sigh of relief, but the relief was illusory. The Medici were now unable to collect from the supporters of the House of Lancaster, the losing side in the War of the Roses. Beyond that, many of the English lords, from both houses, to whom the Medici had lent their money had died on the battlefield. And in terms of paying his debts, Edward IV resorted to his old tricks. On April 26, 1464 Canigiani lent Edward IV 800 marks, for which

he received nothing in return other than "the right to ship 200 sacks of wool from London or Sandwich to the Staple of Calais and thence beyond the mountains without paying customs and subsidies."³⁶ Given deals like this, the collapse of the London branch was only a matter of time.

Rather than deal with this looming crisis, Cosimo withdrew into the world of neoplatonic illusion. Toward the end of the summer of 1462 Cosimo wrote a letter to Marsilio Ficino summoning him to his country estate at Careggi. Cosimo asks Ficino to bring his copy of Plato's *De Summo Bono*, whose translation Cosimo commissioned because as Cosimo puts it: "For I desire nothing more ardently than to know how the easy way leads to happiness." Cosimo also reminds Ficino to bring the Orphic hymns with him as well.³⁷ Gutkind claims that Cosimo was also reading the translation of the writings of Hermes Trismegistos, completed in 1463, at Careggi.

Was this interest in magic a sign that Cosimo was in his dotage? Or was Cosimo interested in magic for the same reason that Henry VI and Edward IV were? Was this interest in magic a sign of economic desperation? Both creditor and debtor had reason to be concerned because the English sovereigns, in becoming too big to fail, had killed the goose that laid the golden egg: "From 1455 onward, the Medici Bank ceased to grow and, as standing still is impossible in a dynamic world, it soon entered into a period of decline, which began with the death of Cosimo (1464) if not sooner."³⁸ Cosimo must have known that Florence was on its way down largely because of Cosimo's imprudent loans to princes:

Banking recovered during the 15th century through its Oriental connections, but the leading position at the courts of England, France, and Naples had been lost. During this century the great nations of Europe strove towards economic independence founded on their own increased strength. The Hansa towns, the English and even the French came slowly abreast of Italy. Business methods had been observed and copied. The slogan "made in Florence" no longer had the same powers of attraction. Economically speaking, Florence sank towards the end of the Quattrocento to the status of a second-rate power. The first signs of decadence—in industry, to begin with—are noticeable in Cosimo's time.³⁹

Cosimo, according to Gutkind, was drawn to two different worlds. This, however, is hardly a characteristic which distinguishes him from the rest of humanity, which is always seeking a way to have its cake and eat it too. Cosimo wanted ill-gotten riches and eternal life, and the only way he could hope to achieve both was through a syncretism culled from the Gospels which exhorts Christ's followers to enter by the narrow gate and avoid the broad way which leads to perdition and the "*via commodius*" which he derived from neoplatonic magic. Gutkind assured us that "a few days before his death the *superna beatitudo* of Plato must have fused with the vision of the Christian Paradise to efface any lingering doubts,"⁴⁰ but a more likely outcome was the reception Dives met after a lifetime spent ignoring Lazarus.

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In the end, Cosimo could have sought counsel from the Church, but St. Antonino, the last pious bishop to rule Florence, died in 1459. Antonino's successors—prelates like Salviati, the man who was involved with the Pazzi in a plot to kill his grandson—did not inspire the same spiritual confidence that Antonino did. And so a significant moment came and went, and with it an economic opportunity passed.

Cosimo died on August 1, 1464, without making out a will, secure in the knowledge that his fortune would pass unencumbered to his son Piero. Cosimo passed on other things as well. His son Piero inherited the Medici propensity to the gout, and he inherited the political crisis which was Cosimo's legacy as well. The crisis Cosimo thought he had resolved by *force majeure* in 1458 would recur two years after his death.

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35 de Roover, *Medici*, p. 329.

36 De Roover, *Medici* p. 330.

37 Gutkind, p. 243. "Contuli heri me in agrum Charegium, non agri, sed animi colendi gratia; veni ad nos, Marsili, quam primum. Fer tecum Platonis nostri librum de Summo bono quam isthic arbitror iam e Graeca lingua in Latinam, ut promiseras, transtulisse. *Nihil enim ardentius cupio, quam quae via commodius ad felicitatem ducat cognoscere.* [his emphasis]Vale et veni non absque Orphica Lyra." [my translation].

38 de Roover, *Medici*, p. 70.

39 Gutkind, p. 9.

40 Gutkind, p. 245.

Chapter Eleven

Piero and Debt Deflation

When Cosimo died, Parenti wrote that everyone rejoiced, "Such is the love of and desire for liberty." Najemy claims that "the air was freer with Cosimo gone. . . . The next day Niccolo Soderini. . . delivered a long dramatic speech lamenting. . . excessive taxation that was impoverishing the city and the countryside."¹

The reaction to Cosimo's death within the Medici family was, understandably, somewhat different and considerably less hopeful. Shortly after his father's death, Piero di Cosimo, ordered a survey of his property and his business interests in order to know "in how many feet of what he was standing." The audit probably revealed that the affairs of the Medici company were not in as prosperous state as was believed.²

Piero learned that the London branch of the Medici Bank was on its last legs. One year after Cosimo's death, Piero refused to renew the partnership agreement when it expired. Two years after that, Piero sent Angelo Tani to London to audit the books. When he arrived in January 1468, Tani discovered that Edward IV now owed the Medici Bank the colossal sum of 8,500 pounds sterling. What was worse, Canigiani, ostensibly the Medici agent in London, had already signed agreements allowing the king to repay his loan by remitting duty on wool at the rate of four marks per sack. In the meantime, Canigiani needed to borrow money at 12 to 14 percent per annum to keep the London branch running, so that the English sovereign could borrow still more money from them and remit still more duty, at four marks per sack.

Tani came to the conclusion that the interest charges on the money Canigiani borrowed "were consuming its substance."³ In response to Tani's pleas, Edward IV showed himself amenable to accelerating payment of the royal debt, but nothing short of a miracle could solve a financial problem of this magnitude. When Henry VI was restored to the throne in 1471, he showed himself just as amenable, but in the end the Medici Bank had to settle for the old arrangement, namely remission of export duty on wool to the tune of four marks per sack.

The situation facing the Medici Bank was particularly dire because along with the gout, Piero inherited all of Cosimo's other bad debts, and the situation in England was the rule rather than the exception. The Medici Bank was hemorrhaging money to courts all over Europe.

At some point during the 1460s, the Medici Bank had reached the dreaded tipping point which its Florentine predecessors had reached in the past, the one where "the indebted client has the upper hand," and "the bank is too deeply in-

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volved to pull out.⁷⁴ The Medici agents in medieval Europe's financial capitals were "lending far too much of the bank's money to the people they wished to spend time with and resemble: kings, princes, dukes, lords, and cardinals."⁷⁵ Seized by panic, Piero sent Tani to London, and he then tried to wind down the Venice branch. He then ordered Pigello Portinari to cut back on loans to the Sforza court in Milan and told his brother Tommaso Portinari to sell off the galleys he had bought from Charles the Bold. Above all, Tommaso was to deny the Burgundian court any more credit.

Then, in March 1466, Francesco Sforza, Cosimo's political protégé, died leaving massive debts. The same would soon be true of Charles of Burgundy as well as the various members of the houses of Lancaster and York in England. They would all die owing massive sums to the Medici.

Once he found out how bad things were, Piero called in a number of outstanding loans and provoked a crash. The main victims of this policy were not foreign princes but other Florentine oligarchs. On November 13, 1464 the firm of Matteo di Giorgio del Maestro Cristofano was the first domino to fall. Cristofani's bankruptcy then brought down several other Florentine firms, "including Giovanni and Angelo Baldesi, Bernardo Banchi and Brothers and Pierozzo Banchi."⁷⁶

At that point the firms which owed big money began to fail:

The first major crash was Piero Partini and Brothers, who owed 40,000 florins. Next came Lodovico Strozzi, whose liabilities amounted to about 32,000 florins, and Lorenzo d'Illarione Illarioni, who failed with a deficit of 160,000 florins. The latter was the grandson of Illarione de'Bardi, who had been the general manager of the Medici Bank from 1420 to 1433. . . . According to a letter of Angelo Acciaiuoli, the crisis of 1464-65 was the worst calamity since 1339 [when the Bardi and Peruzzi banks failed].⁷⁷

Before long "lack of confidence caused business to come to a standstill."⁷⁸ De Roover finds the whole situation mystifying, and is unable to attribute the crash and subsequent depression in Florence to Piero's actions, because "the bankruptcies scarcely affected the Medici Bank"⁷⁹ and most of the firms that did go bankrupt had connections with the Levant, where war broke out between Venice and the Ottoman Empire in 1463, a war which lasted until 1479.

The policy of contraction set off a depression in Florence, but it did little to solve Piero's financial problems, and this was so for one simple reason, namely, the heart of Piero's difficulties revolved around the bank's loans to princes. Piero and his agents found it impossible to say no to the main drain on their money. In dealing with princes, Piero was just as feckless and inconsistent as his branch managers. No matter how deeply in debt the sovereigns got, the Medici Bank was always willing to lend them more money.

Flying in the face of the evidence he presents in his own book, de Roover attributes the demise of the Medici Bank to "a stroke of bad luck."⁸⁰ De Roover

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attributes the depression which ravaged Florence for the last three decades of the 15th century to the fact that Piero was bedridden with the gout for the last five years of his life and, what was still worse, “had received no practical training in the counting house.”¹¹

The source of Piero’s financial distress wasn’t bad luck or the gout; it was bad loans. Piero was forced into a policy of contraction out of financial necessity. Because of the bad loans which the Medici had accumulated, their bank was running out of money. The London branch was forced to borrow at 12 to 14 percent per annum to meet expenses and the interest payments on those loans not only made it impossible to make a profit, they were also eating away at the firm’s capital.

Like de Roover, Niccolo Machiavelli makes it seem that Piero had some choice in the matter. Machiavelli claims that Piero called in the loans which brought about the crash “upon the perfidious advice of Dietisalvi Neroni,”¹² who wanted to create popular discontent and bring about the overthrow of the Medici regime. The odium incurred by Piero, Machiavelli adds, was increased by the number of business failures allegedly brought about by this credit contraction.

What de Roover and Machiavelli failed to see, and what the Medici family was about to learn in the expensive school of experience, was that the real problem wasn’t bad personnel decisions or bad luck; the real problem was usury. In a capitalist economy, all loans are ultimately bad loans. Piero was forced to call in loans because he was caught up in the debt/deflation cycle that always comes about with an overextension of credit.

In his seminal article on the debt deflation cycle, Irving Fisher claims that “general economic equilibrium is disturbed by only the one factor of over-indebtedness.”¹³ Fisher’s article appeared in 1933 and dealt with the Great Depression, which followed the stock market crash of 1929, but his explication of the “chain of consequences” which inevitably follows from over-indebtedness is equally applicable to both the recession of 2008 and the recession which paralyzed commerce in Florence during the last three decades of the 15th century. The trajectory is the same because capitalism is state-sponsored usury, and usury always has the same consequences:

Over-indebtedness will tend to lead to liquidation, through the alarm either of debtors or creditors or both. Then we may deduce the following chain of consequences in nine links: 1) Debt liquidation leads to distress selling and 2) contraction of deposit currency, as bank loans are paid off, and to a slowing down of the velocity of circulation. This contraction of deposits. . . causes 2) a fall in the level of prices, in other words, a swelling of the dollar. . . . There must be 4) a still greater fall in the net worths of business, precipitating bankruptcies and 5) a like fall in profits, which in a “capitalistic” . . . society leads to concerns which are running at a loss to make 6) a reduction in output, in trade and in employment of labor. These losses, bankruptcies and unemployment lead to 7) pessimism and loss of confidence, which in turn lead to 8) hoarding and slowing down still more of the velocity of circulation. The above eight cases cause 9) complicated distur-

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bances in the rates of interest, in particular, a fall in the nominal or money rates and the rise in the real of commodity rates of interest.

Just as a bad cold leads to pneumonia, so over-indebtedness leads to deflation. The ways out are either via *laissez faire* (bankruptcy) or scientific medication (reflation), and reflation might just as well have been applied in the first place.

Psychologically, the usury cycle is made up of two parts: greed and fear. In the initial stage, when the economy is heating up, and returns start to flow in magically from usurious loans, speculators borrow money to cash in on the boom.

Easy money is the great cause of over borrowing. When an investor thinks he can make over 100 percent per annum by borrowing at 6 percent, he will be tempted to borrow, and to invest or speculate with borrowed money. This was a prime cause leading to the over-indebtedness of 1929. Inventions and technological improvements created wonderful investment opportunities, and so caused big debts. Other causes were the leftover war debts, domestic and foreign, public and private, the reconstruction loans to foreigners, and the low interest policy adopted to help England get back on the gold standard in 1925.

The public psychology of going into debt for gain passes through several more or less distinct phases: a) the lure of big prospective dividends or gains in income in the remote future, b) the hope of selling at a profit and realizing a capital gain in the immediate future, c) the vogue of reckless promotions taking advantage of the habituation of the public to great expectations d) the development of downright fraud, imposing on a public which has grown credulous and gullible.

Borrowing money at 6 percent to earn a 100 percent return gets the speculator overleveraged. And then when the bank stops lending, fear replaces greed and the speculator is consumed with a desire to get out of debt.

Overindebtedness. . . leads to attempts to liquidate, 5) these in turn lead . . . to falling prices or a swelling dollar, 6) the dollar may swell faster than the number of dollars owed shrinks, 7) in that case, liquidation does not really liquidate but actually aggravates the debts and the depression grows worse instead of better.

What happens now is the opposite of what happened at the beginning of the usury cycle. Everyone trying to liquidate causes a deflationary fall in prices, which of course, makes it more difficult to pay off the debts that were incurred at the inflationary end of the cycle, or as Fisher puts it:

deflation caused by the debt reacts on the debt. Each dollar of debt still unpaid becomes a bigger dollar, and if the over-indebtedness with which we started was great enough, the liquidation of debts cannot keep up with the fall of prices which it causes. In that case the liquidation defeats itself. While it diminishes the number of dollars owed, it may not do so as fast as it increases the value of each dollar owed. Then the very effort of the individuals to lessen their burden of debts increases it, because of the mass effect of the stampede to liquidate in swelling each dollar owed. Then we have the great paradox which, I submit, is the chief secret of most, if not all, great depressions: the more the debtors pay, the more they owe. The more the economic boat tips, the more it tends to tip. It is not tending to right itself, but is capsizing.

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By March 1933, liquidation had reduced the debts about 20 percent, but had increased the dollar about 75 percent, so that the real debt, that is the debt measured in terms of commodities, was increased by about 40 percent. One of the first things that overleveraged companies do when entering a recession is reduce wages. This measure invariably makes the recession worse, because in cutting wages they reduce demand by reducing the amount of money available to the people who could buy their products. This is a classic instance of self-interest not being generalizable to an economic situation, but it happens repeatedly because capitalists fail to understand that wages are not a liability for the economy as a whole. From 1929 to 1933, when Irving Fisher wrote his article, wages declined by 55 percent, which only exacerbated and prolonged the recession which began by over-indebtedness. Understanding the crucial role that wages play in the economy is the first step not only in getting out of a recession but in not getting into one in the first place:

Keynes noted that the classical system fails as an economic theory because it cannot assume that in an economic downturn, lowering wages will maintain aggregate demand, that is, maintain the buying power of the consumer/wage earner. (He recommends instead an increase in the money supply, creating inflation and doing the same thing, that is, lowering the 'real' effective wage, but not triggering an increase in wage demands). Indeed the evidence, both practical and theoretically is that it can't. A 55 percent reduction in wages during the first couple of years of the Great Depression did not prevent it or stimulate its recovery.¹⁴

A proper understanding of the role wages play in the economy is the best long term solution to the boom/bust cycle. The just wage automatically limits the appropriation of surplus value that allows the accumulation of capital, which in turn provides the capital formation necessary for getting into banking and therefore usury, and therefore over-indebtedness, leading to economic paralysis, and ultimately the debt/deflation cycle. The only way out of the debt-deflation cycle is reflation, i.e., having the government directly issue money and place it into the hands of the people. Fisher claims that:

It is always economically possible to stop or prevent such a depression simply by reflating the price level up to the average level at which outstanding debts were contracted by existing debtors and assumed by existing creditors and then maintaining that level unchanged.

During the Florentine recession of the late 15th century, reflation was not a possibility because the government's role vis à vis the economy precluded it from becoming the lender of last resort. During the recession which began in 2008, the US government attempted its own version of reflation, something the Obama administration called "quantitative easing," but since the money was put in the hands of bankers, who were still refusing to lend, quantitative easing had little effect on the economy as a whole. The government's reliance on debt (or usury) as a way of issuing money only postponed economic recovery by propping up inflated

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assets and, worse, reintroduced the usury trajectory toward over indebtedness which caused the recession in the first place. Reflation via loans to banks as a way of introducing money into the economy is notoriously ineffectual; the analogy normally used to describe it is “pushing on a string.”

Reflation was not attempted in 1464 because there was no science of economics which could explain how it was necessary to revive the economy. It was attempted half-heartedly in 1929 and 2008 because, as Fisher put it,

If . . . our rulers would have insisted on “leaving recovery to nature” . . . they would soon have ceased to be our rulers. For we would have insolvency of our national government itself, and probably some form of political revolution without waiting for the next legal election. The mid-west farmers had already begun to defy the law.

The fault lies with the capitalist system itself, because, as we stated earlier, capitalism is state-sponsored usury. The history of capitalism is a history of economic crises, which are all traceable to the trajectory of usury, because, as Carney puts it, “In fact the very act of lending at interest creates the risk that brings failure.”¹⁵

John Maynard Keynes, like Irving Fisher, came up with a way of unfreezing the economy after it had crashed, by government spending, but did not come up with a way to preventing that mess in the first place. The antidote to usury and the magic pill that will prevent the collapse of the economy is the just wage.

Fiddling with tariffs produced no beneficial results in Florence in the 15th century because the heart of the issue was wages. The economic fact which neither the Florentine oligarchs nor the people at Goldman Sachs ever learned was that “wages. . . cannot be regarded as costs from the point of view of the national economy.”¹⁶ It is precisely at this point “where the private and the national economies part company in their approach”¹⁷ and no “invisible hand” can resolve the difference.

The same principle applies to both banking, as practiced at the time of the Medicis and modern finance. In fact, the same principle is *a fortiori* true of a modern state like the United States of America, which issues its money in the form of debt. If the money supply, which we will call *x*, is issued as debt then, *x* must be repaid with interest, which is to say, it must be repaid with money that does not and cannot exist unless the government issues another loan, which then sets up a larger version of the same problem. According to Carney’s analysis, the trajectory of usury must lead to economic collapse:

Because the loan contract sets up an obligation to repay more than was loaned and, in fact, more than exists in the aggregate, there is always a shortage of cash to repay until the inevitable indebtedness becomes too large to ignore. This is the effect of usury. . . . Like a wave cresting, the enormous build up of debt finally reached a point, as it always does, where some banks and lending institutions refused to lend anymore, because debt ratios became too big. At the same time, so many new homes were built that the demand could not match supply and this

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added to the downward pressure on prices. The poor wage earner took the blame for not paying his debts, but in reality the poor were taken advantage of by the new forms of loans with increasing rates, while at the same time, they did not have the income to continue buying homes. It was as much because his wages were not increasing as fast as the payments due on the new loans as it was they could not meet their obligations at first. When a few influential lenders began to stop lending, the cash to keep the economy going stopped. Assets had to be liquidated to pay existing loans and, having to sell at a loss, so it began to drive prices down. The wage earners lost jobs and got behind on mortgage payments and some were foreclosed. The rout was on. . . . Simply put, there is not enough money in the system to pay principal and interest on all loans. *It is absolutely, mathematically impossible to repay all loans.*¹⁹

In his analysis of usury, Carney focuses on the housing bubble which led to the recession of 2008, but his caveats apply equally to Piero the Gouty's predicament *vis à vis* Edward IV, Philip of Burgundy, and Francesco Sforza of Milan. The only way that Piero could collect his debts was by lending princes more money.

Thus the same principal is loaned over and over again while the aggregate interest grows larger and larger on this same principal of the nation's money supply. . . until a critical point is reached where the debt schedule of payments becomes so large, the banks or other fiduciary institutions refuse to lend more.

Here as before, Carney's comments about the crisis of 2008 apply, *mutatis mutandis*, to the crisis which Piero provoked in 1464:

The banking system was bound to fail because it is the nature of usury to demand what does not exist and when money is created as a loan, the interest required in repayment, is not created, does not exist and cannot be paid. When all money is created as a loan, the interest on that money is not created and doesn't exist. If some are able to repay principal and interest it is impossible that all can, because the payment of interest on the former requires principal from the later loans, which are now short both principal and interest, and so the short fall grows. It is the contract for return of interest over principal that does not accord with the actual availability of real money that is the principal issue with usury.

To blame the failure of the Medici Bank on bad luck or the incompetence of the bank's branch managers is to misunderstand the nature of usury. The Medici may have been rich, but they were what the English would call commoners and, as such, clearly intimidated by the aura of political power the princes could project. This explains why they got into the business of lending to princes. Once they got in, however, there was no way that they could get out because the interest on the first loan had to come from the principal of the second. The modern banking system tried to evade the consequences of usury by making lots of money available and then relying on something they refer to as the "velocity" of money, but, as Carney points out,

The only way velocity of money could solve the problem is if money were somehow (magically) made available to pay interest on loans – without it being made

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available as loan. But this is impossible under the present system. No money is created or available for use except by lending. . . . Whatever may lead to an immediate crisis of liquidity, the ultimate problem is that the whole system is short of interest. Interest is like the carrot on a stick attached to the horse of the economy. No matter how fast the horse runs, it will not catch the carrot, because it is attached to itself. Likewise, no matter how much money is created, the interest can never be paid in full because all money is created as a loan to which the carrot of interest is attached. To counter what is perceived as only a lack of confidence, arising out the failure of some ultimate lender, the remedy is either to create more money or to have the government step in to be the lender of last resort. But as this does not remedy the creation of money as debt, it cannot solve the problem.

The princely solution to the impossible situation created by usury has always been default. When the bank finally informs the prince that it has no more money to lend, the prince announces that he is not going to pay back his loans. At that point, the bad loans are wiped off the books, and everyone starts all over again, and the apologists for capitalism issue decrees claiming that the system, which has just failed again, is basically sound. The apologists for capitalism fail to see (or fail to admit) that recessions and depressions are caused by the booms which precede them because boom is another word for over-indebtedness.

The demise of the Medici Bank was inevitable because its rise was based on usury. Since it was impossible to repay all loans, only the creation of additional money could delay the day of reckoning. But as this new creation was also attended by interest, the debt increased even more, until the income stream to meet the scheduled payments could not be sufficient to cover interest and principal payments. (Remember that the later loans become short both principal and interest, as the initial loans were short only interest.) As the loans multiplied, as there is no limit to money demand, the debt rose until lenders sensed the risks too high and would lend no more.

Piero inherited Cosimo's bad loans. The problem was systemic, but the crash began when Piero decided to call in loans to staunch the money which the Medici were bleeding from branches like London and Brugge (Bruges). Piero had no choice because he was running out of money, and in Florence the government was not the lender of last resort (although Piero's son Lorenzo would periodically loot the Florentine treasury and the trust fund established for his nephews to make up bank shortfalls). The Medici were the lenders of last resort for governments like the courts of England and Burgundy. When Piero began calling in loans to get the money he needed to pay the interest on the money he had borrowed to keep the London branch open, he created a liquidity problem which collapsed the system into severe recession.

With the Medici Bank in decline, the political situation was ripe for reaction against the financial policies of the Medici regime, which had succeeded in enriching a few and impoverishing the many. The political crisis came to a head

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during the summer of 1466, when as Guicciardini puts it,

Piero went off to Careggio, [and] his enemies decided to murder him on his return. Armed men were placed in Sant'Ambrogio del Vescovo, which Piero usually passed on his way back to the city. They could avail themselves of that place because the archbishop of Florence was messer Dietisalvi's brother. But the good fortune of Piero and of the Medici would have it that this time he did not return by the usual route, so that he got back to Florence safely.²⁰

The political crisis of the summer of 1466 followed on the heels of the financial crisis which emboldened Piero's political opponents. Najemy claims that "the story that 'conspirators' had sought to kill Piero at the height of the confrontation in the summer of 1466"²¹ was in reality Medici propaganda, invented and promoted to discredit "an open and legal attempt to restore constitutional government."

In the end, Piero solved his political problems in the same way that his father had, by the threat of military intervention. When Francesco Sforza died in March of 1466, the anti-Medicean forces in Florence were emboldened to press their cause. When, however, at the height of the crisis during the summer of 1466, the Milanese ambassador informed him that Milanese cavalry were waiting at his disposal near Bologna, Piero ordered them to enter Florentine territory, and the threat of regime change evaporated.

It wasn't just *force majeure*, however, which saved Piero. The oligarchic families who opposed the Medici feared their natural allies in this struggle, namely, the Ciompi, more than they feared the Medicis. Class consciousness triumphed over republican solidarity, as it always had in the century following the Ciompi rebellion of 1378. The oligarchic families hated and feared the Medici, but they were even more fearful that the Ciompi "might rise against the government and take it for themselves as they did in 1378." Ultimately, "it was the memory of 1378 that held the anti-Mediceans back." Piero had succeeded in playing his enemies off against each other: "faced with the choice between a tyranny they despised and an alliance with the middle and lower classes to defeat that tyranny, the Ottimati, however reluctantly, chose to stay with the Medici."²²

Piero saved the day politically by a show of force, but his son would soon learn that no army known to man could save the Medici Bank.

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Chapter Twelve

Lorenzo and the Renaissance

Piero de Medici died on December 2, 1469 and was succeeded by his two sons, Lorenzo aged 21 and Giuliano, who was only 16. Lorenzo was the first Medici born inside the glittering but ultimately deceptive envelope of the Medici mystique. As a result, he began “acting like a prince even before his father died in 1469.”¹ Perhaps nothing symbolized his coming role as the quintessential Renaissance prince better than the joust at which he bore a shield adorned by a family jewel, the Diamond “Il Libro,” which was valued at 2,000 florins, enough money to construct a palace in the heart of Florence. Lorenzo’s role at the joust, where he not surprisingly defeated all comers, was immortalized in Luigi Pulci’s epic poem *La Giostra di Lorenzo de Medici*.²

The joust was celebrated in anticipation of his upcoming marriage to Clarice Orsini, the Roman aristocrat, and the fact that he would assume the mantle of ruler which his father had inherited from Cosimo, the *pater patriae*. It was also celebrated to distract the populace from certain unpleasant realities, via the venerable Roman tradition of bread and circuses. When the people objected to Lorenzo’s engagement to Clarice Orsini, his father organized two festivals to divert their attention. One of them was conducted with such pomp that, said Machiavelli, “it kept the whole city occupied for many months.”³

Lorenzo’s victory at the joust was a sign that he was predestined to unseat all of his political rivals as well, and become not only “the most innovative political leader in the republic’s history,”⁴ but one of the Italian language’s greatest poets and a symbol of the age. Three centuries later, Voltaire would identify 15th century Florence as one of Europe’s four great cultural epochs and Lorenzo “its defining personality.”⁵

Marsilio Ficino, Lorenzo’s boyhood tutor, claimed that with his accession to the non-existent throne of what still called itself a republic, Lorenzo inaugurated the Golden Age of Florence, one which “radiated its brilliance over the liberal arts so long obscured, over poetry, sculpture, music, the song of the ancient Orphic lyre.”⁶ During the apotheosis of the Medici reign, Florence had mastered virtually every art known to man. Florence had “33 banks, 83 silk workshops, 270 woolen workshops, 66 apothecary shops, 54 stonecutting establishments, 31 ateliers belonging to artists, 26 ateliers belonging to sculptors, and 44 jewelers and goldsmiths with shops

on the Ponte Vecchio.⁷ During Lorenzo's short life 30 new palaces were erected, and a series of successful wars had given Florence hegemony over Tuscany, as well as a fleet of 25 galleons, which brought Florentines the world's riches in exchange for their gold florin, "the most stable currency in Europe."⁸ Vast wealth flowed in and out of Florence's banks, the greatest of which was the Medici Bank, "the greatest commercial house that had been built anywhere," which had representatives in London, Naples, Cologne, Geneva, Lyons, Bale, Avignon, Bruges, Antwerp, Luebeck, Ancona, Rome, Pisa, and Venice.⁹

In addition to being the banking center of the world, Florence still produced a considerable amount of cloth. In spite of the long-term decline, the Florentine wool industry was still "the real basis of the city's economy,"¹⁰ and, even though it was far from what it was at its high point in the mid-14th century, the cloth industry still employed 16,000 men, women and children, who "labored from matins to vespers to produce silk and velvet, taffeta, and damask brocade and cloth of gold to outfit the wealthy in every part of Europe and the Middle East."¹¹ By way of comparison, England, which would go on to become the premier world financial power, was an exporter of raw wool. The situation in England as of 1470 was far from rosy, but even with the debt of the English aristocracy mounting to unsustainable levels, Lorenzo was still able to persuade Henry VII to sign an agreement that guaranteed a steady supply of fine English wool to Florentine cloth mills.

In an era this dazzling it is easy to be blinded by the personality of the man who embodied it. The historian is confronted by the paradox whereby Lorenzo's accomplishments shine brighter the farther they become removed from us in time. Many of Lorenzo's contemporaries had a very different view of him and the age he embodied. Alamanno Rinuccini called Lorenzo "the malignant tyrant, who tried to become lord of the republic like Julius Caesar."¹² The Florentines secretly longed for Lorenzo's death because "under his control the city was nothing other than enslaved."¹³ Najemy claims that "the myths of Lorenzo's magnificence" were largely the result of his public relations acumen and that they constituted little more than "a mystification of that power."¹⁴

No one would claim that Lorenzo's literary and political genius extended to banking or commerce. Machiavelli claimed that "Lorenzo the Magnificent had no luck in his commercial undertakings"¹⁵ and attributed his misfortune to "the mismanagement of his agents. . . who conducted the business as if they were princes and not merely private persons."¹⁶ Because of that mismanagement, "much of his wealth was lost in places abroad; as a result, the State had to support him with large sums of money."¹⁷

Under Lorenzo, Florence's decline began in earnest. The decline in the banking industry began around 1470. By the time Lorenzo had to sever his

connections with the Bruges branch in 1478, it had become "difficult to say where credit sales ended and loans began. The Court was such a good customer that the temptation was great to be lenient on terms."¹⁸ De Roover claims that the Medici Bank was in a state of constant decline from the death of Cosimo in 1464 to the expulsion of the Medici from Florence in 1494.¹⁹ His speculation that had he lived Cosimo "might have been able to retrieve the waning fortunes of the Medici Bank and to halt a descent that was leading to the abyss"²⁰ ignores the nature of usurious debt. Similarly, contemporary historians also laid the blame at the feet of Lorenzo's branch managers, who excited "the cupidity of princes by giving them the mistaken impression that the Medici Bank was able to lend unlimited amounts."²¹

Lorenzo's nephew, Alessandro de Pazzi is more explicit and attributes the failure of the Medici company to his uncle's lack of business ability, lavish expenditures and absorption with public and other affairs.²² Francesco Sassetti comes in for special criticism because it was to Sassetti that Lorenzo, who was barely out of his teens, and Giuliano who was still a teenager, had to turn for the experience and expertise needed to run the family enterprises, but Sassetti, who died a poor man, was no different than any of the branch managers he was supposed to manage. He was caught up in the same debt/deflation cycle, and he didn't understand what was going on any more than anyone else, and so he didn't know how to resist the forces that were dragging him and the young prince, and everyone else associated with the bank, to financial ruin.

He was no different than Tommaso Portinari, the manager of the Bruges branch. During the summer of 1469, when Piero was on his deathbed, Tommaso Portinari returned to Florence to renew his contract with the Medici Bank, just as he had done after the death of Cosimo five years earlier. As early as 1464, before he became branch manager, Portinari was accused of spending too much time at the Burgundian court and too little attending to the bank's business. Piero, Lorenzo's father, hesitated to renew Portinari's contract in 1464 precisely for this reason. One month after his contract was renewed in April 1465, Portinari used the influence that Medici loans had granted him with Philip the Bold to get into tax farming when he was granted the right to collect the toll at Gravelines, Burgundy's access to the sea, on May 28, 1465. Portinari got in still deeper when he agreed to take two of the Duke's galleys off his hands and run them at what amounted to Medici expense. This should have persuaded Lorenzo to deny Portinari another term as head of the Bruges branch, but what does a 20 year old know about matters like this? Portinari's contract was renewed, and he continued to administer the Bruges branch until he drove it over the edge into bankruptcy.

That contract, which was signed in October 1469, voided on the death

of Piero on December 2, and then signed again on December 15, gives some indication of the financial crisis which the bank faced. Fearing that Portinari was greedy "and considered only his own interest," the bank had a special clause inserted into Portinari's contract which urged him "to deal as little as possible with the court of the Duke of Burgundy and of other princes and lords, especially in granting credit and accommodating them with money, because it involves more risk than profit."²³ The text points out that "many merchants in this way fared badly" and that "our fathers have always been wary of such involvements and stayed aloof, unless it was a matter of the small sum lent to make or keep friends."²⁴

The irony is nothing short of breathtaking. The contract "reaffirmed the principle that it was the Medici's traditional policy not to become embroiled in government finance,"²⁵ but then the bank managers allowed praxis to contradict principle when they allowed Portinari to lend Charles the Bold another 6,000 pounds groat. Another clause ordered the sale of the galleys, and it was also ignored, with serious financial consequences.

Portinari's contract confirms the suspicion that three generations of Medici bankers knew where the pitfalls lay, but they proved incapable of not falling into them. In defense of the Medici, de Roover cites Usher, who claims that medieval bankers "had little choice"²⁶ when it came to investment possibilities, which is true, but then he criticizes the very thing that would have saved Medici investments over the long haul, namely, shared risk investments in real enterprises rather than the illusions of no risk returns based on usury.

Portinari's contract mentions the cautionary tale surrounding the career of Gherardo Canigiani, "whose example we should have constantly before our eyes."²⁷ Before their eyes or not, the Medici seemed incapable of avoiding the dangers they kept warning themselves about. No matter how often the Medici conjured the disastrous failures of the Bardi and the Peruzzi, who lost "a treasure worth a kingdom" in making loans to Edward II of England and Robert of Anjou, before their eyes as a cautionary tale for all bankers, they invariably ended up lending more money to sovereigns who were already in over their heads.

By May of 1472, Lorenzo realized that his problems with Canigiani had worsened. Lorenzo now had to contemplate the liquidation of the London Branch because Canigiani had "accommodated His Majesty the king from our money and not from his with the result that we and not he are made to sustain the full impact of the losses."²⁸ The Medici Bank tried to get its money back in 1471 through an elaborate scheme "which fell little short of being a swindle,"²⁹ but the swindle failed, allowing Canigiani to accommodate His Majesty still further.

Sensing that the London branch was going down, Canigiani wrote off a

360 pound debt to Edward IV in exchange for English citizenship, the country estate of Great Lynford in Buckinghamshire (complete with benefice), and the hand of Dame Elizabeth Stockton, who was wealthy in her own right. Canigiani changed his name to Gerard Caniziani and then joined the Mercers Guild in London, where he described himself with unintentional irony as "sometime of the fellowship of the Medicis in Florence."³⁰ If Canigiani had admitted that he was a Medici partner, the London mercers might have had second thoughts about admitting him to their guild. Like the wily steward in the gospels, Canigiani fooled everyone and cashed out just before the crash. He died a wealthy man, unlike Sassetti and Portinari, who were left holding the bag.

Lorenzo sent his factotum Angelo Tani to straighten out the mess in London, but Tani's efforts were undercut by both Sassetti and Portinari, who had agreed that Bruges would assume the debts of the London branch. In doing this, Portinari, who was careful to exclude his share in the still profitable wool trade from the London branch's assets, all but guaranteed the eventual collapse of the Bruges branch, which came about in 1478. Once the Bruges branch was saddled with the debts of the English branch, it was only a matter of time before those usurious interest payments caused the same kind of deficits that had brought London to ruin. Tani must have understood what was going on because he refused to be liable for any losses suffered by the Bruges branch after 1473, the year when Medici finances started to go sideways.

On April 27, 1473, the two galleys which Portinari had bought from Philip the Bold with Medici money were attacked by pirates from Danzig under the command of Paul Beneke. One made it to Southampton, their original destination, but the other, which was carrying a cargo of alum and a famous altar-piece by Hans Memling portraying Portinari and his wife being weighed naked at the last judgment was captured and taken to Danzig, where the portrait remains to this day. The pope excommunicated Beneke and his crew "as pirates who robbed papal alum on the high seas,"³¹ but the gesture had little effect because Beneke retained the support of his Hanseatic backers, and Medici losses continued to mount.

Lorenzo had troubles at home as well. In 1474 Pope Sixtus IV removed the Medici agent from his office as *Depositarius* of the Apostolic Chamber. Then in 1476 the Jewish *capitoli*, licenses to lend money at usury, were renewed on terms more favorable to the Jews than the city fathers because both the Medici Bank and the Florentine republic were experiencing financial distress and couldn't afford to have a popular uprising on their hands of the sort that might occur if the poor were denied easy (but expensive) money. The Jews could also exert pressure on the Florentine Republic because they served as front men for wealthy Christians, who got usurious

return on their investments (without the odium, which went to the Jews) by depositing their excess cash with the Jewish moneylenders. The practice was illegal, but widespread. As a result, the city of Florence sank under still more debt over the long haul when the licenses were renewed, but in the short term, the city treasury got its much-needed customary 1,200 florins from the Jews for the license to exact usury. Everyone had become so accustomed to borrowing, that they were now accustomed to living on borrowed time as well. As of the late 1470s, borrowed time was the only thing separating Florence and the Medici Bank from financial collapse.

With the bad loans to Edward IV on the books of the Bruges branch, Portinari needed a miracle to save him, but the bad news continued unabated. On June 22, 1476, Charles the Bold, whose recklessness had squandered a fortune, was routed at the battle of Morat by Swiss troops, who captured his baggage and artillery. This meant that he would need to borrow still more money to refit his army if the Medici wanted to recover any of the money which they had already lent him. The question of where to find more money became a moot point when he was killed in another battle before Nancy on January 5, 1477.

Thanks to the Portinari family, which had grown rich as his ostensible agents to the Burgundian court, Lorenzo ended up with between 70 and 80,000 florins worth of bad debt, with the only possibility of recouping it being more loans to Charles' successor, Maximilian of Austria, who was as feckless as Charles had been reckless. And so Portinari came up with another 20,000 pounds for Maximilian and his wife Mary. To do this, Portinari had to borrow the money at a higher rate than he lent it out, further hastening the demise of the Bruges branch. To staunch the money that the Bruges branch was hemorrhaging, Lorenzo demanded that Portinari take over the branch's loans at book value, which he did on August 7, 1480.³²

By 1477, the handwriting was on the wall. Deprived of the money which Philip the Bold owed them when he died, there was no way the Bruges branch could keep London afloat. The London branch closed its doors in 1477. Angelo Tani complained about the arrangement transferring London's bad assets to Bruges, claiming that the financial burden it placed on the Bruges branch was insupportable, and history would prove him right. When the Bruges branch went bust, the losses of the London branch, which amounted to 51,533 florins finally came to light. Lorenzo had lost the stupendous sum of somewhere between 120,000 and 130,000 florins by listening to his father's faithful advisor Sassetti.

All Sassetti could do in 1488 was attribute his misfortunes entirely "to the thoroughly bad and neglectful management"³³ of Lionetto de' Rossi, the branch manager of the Lyons branch. Lorenzo must have written to Sassetti for money in 1489, because the latter responded by saying that he was

now broke and trying to get out of debt as quickly as possible because the interest on the money he still owed was consuming his estate.³⁴ Sassetti had a stroke on March 21, 1490 and died 10 days later still in debt. His family, which inherited his debts, wasn't able to pay them off either, and in the 16th century they were forced to sell the Sassetti villa in Montughi.

Like Sassetti, Lorenzo blamed everything on the unfaithfulness of his agents. He claimed that he had been duped by Tommaso Portinari. To be sure, Portinari had put his own interests ahead of those of the bank, something Lorenzo noted when he wrote that Portinari, "in order to court the Duke's favor and make himself important, did not care whether it was at our expense."³⁵ Lorenzo tried to rectify the situation when he forced Portinari to take over the Bruges branch and thus suffer the consequences of his own mistakes, but it became clear that "there were forces at work over which neither he nor Sassetti had any control."³⁶

The main force at work was the trajectory of usury itself and the fact that "*it is absolutely, mathematically impossible to repay all loans.*"³⁷ Lorenzo only understood that the situation of the Medici was hopeless from an economic perspective. The only thing that could save the bank and the Medici political regime was some *deus ex machina* in the political order. It was, after all, *force majeure*, which is to say, the threat of military intervention which had saved Cosimo in 1458 and Piero in 1466. Even though he hadn't learned the intricacies of the debt-deflation cycle, Lorenzo was astute enough to understand that the regime of state-sponsored usury which his grandfather had inaugurated in Florence needed a tyrant to save it. Lorenzo was to Florence what Diocletian had been to the Roman Empire. The engine of prosperity had failed, but Lorenzo was clever enough to see how he could make do in spite of that failure. He needed a pretext to justify his imposition of the tyrannical order he needed to distract the republic's citizens from the deep recession his father had precipitated.

Sensing his financial embarrassment, Lorenzo's enemies decided to orchestrate a *coup d'état* which would remove the Medici from power in Florence.

Endnotes

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- 10 Erlanger, p. 8.
- 11 Ibid.
- 12 Najemy, p. 343.
- 13 Ibid.
- 14 Ibid.
- 15 Raymond de Roover, *The Rise and Decline of the Medici Bank: 1397-1494*, (Cambridge, Massachusetts: Harvard University Press, 1963), p. 364. "Fu quanto alla mercanzia infelicissimo"
- 16 de Roover, *Medici*, p. 364.
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- 18 de Roover, *Medici*, p. 358.
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Chapter Thirteen

The Pazzi Conspiracy

The Medici seemed to be at the height of their power when Pope Paul II died in 1471 and was succeeded by Francesco della Rovere, who took the name of Sixtus IV. The new pope named the Medici Bank as official treasurer to the Holy See and made new concessions to the Medici, increasing their share in the alum mines at Tolfa. Then Lorenzo got into a squabble with the pope over the appointment of a new bishop and a piece of territory which both Florence and the papacy laid claim to. Lorenzo relented and agreed to Sixtus' appointment of Salviati as bishop of Pisa, but relations had soured by then. To show his displeasure with the Medici, Pope Sixtus IV deprived them of their role as papal banker and handed it over to their financial rivals, the Pazzi, who then decided it was time to finish off Medici hegemony in Florence with a *coup d'état*.

The Pazzi, or "crazy" family, had earned its name when one of their forbears, behaving like a madman, was the first to cross the breached wall in the siege of Jerusalem during the first crusade. Now the Pazzi would lend their name to an even crazier scheme, namely, bringing down the house of Medici in Florence. The Pazzi conspiracy was intimately related to the parlous state of the Medici Bank. It was a foolish move because as Renato de'Pazzi, "the best mind in the family," pointed out, the failure of the Medici Bank was only a matter of time. All the Pazzi had to do was wait out the inexorable working of compound interest and Florence would fall into their hands because, as Renato put it, "if the Medici lost all credit, they would also lose all power."

As some indication that they were worthy of their family name, the Pazzi rejected Renato's wise council and went ahead with their plan to assassinate Lorenzo and his brother at the Duomo during the celebration of the Mass. When, at the last minute, Giovanbattista da Montesecco, the man who had been designated as Lorenzo's assassin, expressed misgivings about killing him in Church, he was replaced by two priests.

When the host was raised at the moment of consecration during the Mass celebrated in the Medici chapel, the two priests, acting on Archbishop Salviati's orders, fell upon Lorenzo and his brother Giuliano. Giuliano died on the spot of multiple stab wounds, but Lorenzo, only slightly wounded, escaped and took refuge in the north sacristy before fleeing up the via Larga to the family palace to rally his supporters. Archbishop Salviati in the meantime tried to seize the palace of priors, but the Signoria foiled this attempt, and Salviati paid for this failure with his life. Urged on by Lorenzo, the mob seized Salviati and hanged him in his

episcopal robes from one of the windows of the palazzo. Fifty people would die that day, and 30 more later, including one man who was extradited from Constantinople to be hanged in Florence.

Lorenzo lost no time in exploiting the situation. After the initial killing was over, he commissioned Sandro Botticelli to paint posters of the corpses dangling from the windows of the palazzo as a warning to anyone who was thinking of challenging Medici rule in the future. During the trials that followed, Montesecco, Lorenzo's erstwhile assassin, made a full confession which implicated the pope in the plot.

The pope was enraged at the botched outcome and retaliated in a way commensurate with his fury by excommunicating Lorenzo, having all Florentines in Rome arrested, and putting Florence under interdict, which meant that Florentine property could be seized and that no one was permitted to conduct business with them. The delict which brought this punishment down on the heads of the Florentines was "sacrilegious violence to ecclesiastical personages,"² which the city fathers tried to ameliorate when they claimed that Salviati was not wearing his ecclesial robes when he launched his attack on the Signoria.

The Pazzi conspiracy was Lorenzo's 9/11. It was the pretext that would allow him to seize dictatorial power. In its aftermath, Lorenzo was allowed to have as many armed bodyguards as he liked. Supported by his own version of the Praetorian Guard, Lorenzo began behaving more like a Roman emperor than the modest private citizen his grandfather affected to be. Lorenzo became the dictator of Florence largely because the financial system which his grandfather had erected had failed. The banks had collapsed because of the consequences of usury, and, even if there was still considerable wealth in the hands of some private citizens, the republic itself had been impoverished by onerous taxes needed to pay for endless war. The oligarchs who tried to oust Lorenzo from office now acquiesced in his power because they felt that tyranny was the only thing that could keep the Florentine enterprise going at this point. And so Lorenzo strengthened his control of the city by "forcing through a change in the constitution which gave most of the real power to a Council of 70, which was composed of his henchmen."³

Guicciardini would later say that the Pazzi conspiracy gave Lorenzo "such a reputation and such advantages that one could say it was a most happy day for him."⁴ The reasons for Lorenzo's happiness were evident enough to his contemporaries. With Giuliano dead, he had no one of equal stature to answer to, especially when dealing with other members of the Medici family. He had no need to share power, and so "was left to rule Florence almost as he would, the absolute and unquestioned lord of the city and the hearts of his people."⁵

Pope Sixtus and Ferrante, King of Naples, immediately declared war, but Lorenzo shrugged it off. On his orders, priests continued to say Mass and administer the sacraments. When the papal armies threatened Florence, Lorenzo appealed to the King of France, the city's traditional protector, who responded by sending

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a special ambassador with a guard of 600 men, to support Lorenzo and to threaten the Pope that France would withdraw its allegiance to him and would appeal to a General Council of the Church (the bugbear of the Papacy for generations) unless the censures against Florence were revoked and the conspirators punished.⁶

To make his point clearer, the Florentine envoy to the pope included Montesecco's confession implicating the pope in the conspiracy. The implication was clear. Had the pope behaved in a manner more fitting to his office, his anathemas might have had more effect, but the condemnations rang hollow, and Lorenzo shrugged them off, biding his time, waiting for the right moment to reassert his position.

More importantly, the Pazzi conspiracy allowed Lorenzo to save the family fortune by tapping into government funds. After the collapse of the Bruges branch, the Medici Bank was on its last legs. Knowing this, the pope did everything within his power to ruin the Medicis financially. In the aftermath of Lorenzo's successful suppression of the pope's coup attempt, the pope "sequestered all Medici property, repudiated the debt of the Apostolic chamber to the Bank, and expelled Giovanni Tornabuoni from Rome."⁷ Any one of these measures would have brought about the collapse of the already weakened Medici Bank but for the failed coup, which gave Lorenzo unlimited political power, which in turn gave him access to the state treasury.

On January 30, 1495 the Commune lodged a claim with the custodians of Medici property for 74,948 large florins, which had been paid out in several installments to Lorenzo or his agents by Francesco Della Tosa, steward of the Monte or the public debt. The document explicitly states that these payments were made "without the sanction of any law and without authority, to the damage and prejudice of the Commune."⁸

Lorenzo also looted the trust fund of his nephews Giovanni and Lorenzo, whose father had appointed him their guardian. Between May and September 1478, Lorenzo appropriated 53,643 florins, a sum which had not been repaid by 1485, when it was claimed by the two youths upon reaching majority. Lorenzo's appropriation of the trust fund may have rescued the bank but it became a major cause of dissension in the Medici family.

The first great revival of capitalism since the fall of the Roman Empire led, in other words, to the same conclusion as in antiquity. The only thing that could rescue state-sanctioned usury from the natural consequences of its own excess was the state, specifically a tyrant, who had access to public funds to bail out the banks. The similarities between Lorenzo's "bail out" of the Medici Bank and the Obama administration's bail out of the banks in the aftermath of the collapse of 2008 are just as striking. In Florence in 1478, the head of the bank and the head of state were one and the same man. In America in 2008, the situation was more complex but, *mutatis mutandis*, essentially the same. Recession was caused by

over-indebtedness, and the only solution to over-indebtedness was the state taking over the banking industry and using public funds to prop up inflated assets resulting from bad loans.

Ultimately, the capitalist system is based not on its ability to create wealth, because the capitalist system invariably destroys whatever wealth it creates, but rather naked political power, which is to say the ability to dip into the public till to bail out the usurers when they get into trouble. The only thing that saved the Medici Bank from ruin in 1478, when the Bruges branch went belly up, was the dictatorial political power which Lorenzo was able to arrogate to himself in the wake of the Pazzi conspiracy. This power enabled him to loot both the state treasury and his nephews' trust fund with impunity, and the money from this looting alone enabled the Medici Bank to continue in existence for the next 16 years. Far from being inimical to state control, capitalism is a function of state power and could not exist without its protection. Capitalism begins with the unjust appropriation of surplus value, either in the form of unjust wages or looting, and because of the trajectory of usury, it cannot continue in existence without ongoing appropriation of value sanctioned by tyrannical government policy.

Once Lorenzo got his hand in the public till, the state had to make up for the deficits his looting caused. Then as now the first casualty was pension funds. Lorenzo looted the state's *Monte delle doti* or dowry fund, which announced that as of 1490, when Lorenzo had already taken 10,000 florins, that each girl would only receive one-fifth of her dowry when she married. She would also have to make due with reduced interest on the remaining four-fifths of her money. The fabled Medici wealth was based on looting the state treasury. Medici financial policy ended up impoverishing the people of Florence. But nothing can satisfy an appetite as voracious as one generated by compound interest, and so the Medici Bank, in spite of state subsidy, still lurched toward insolvency, a fate it was spared only because the Medici were expelled from Florence before it could happen.

In the meantime, Lorenzo put his classical education to good use by creating a regime of bread and circuses which distracted the Florentine mob from the consequences of his looting and his tyranny. Seward, citing Villari, describes life in Florence as "a continuous scene of revelry and dissipation" and "argues that the regime encouraged pleasure-seeking to stop people asking awkward questions about the way they were governed." In order to bring about their political enslavement, Lorenzo had to orchestrate their moral corruption. As a modern historian puts it, "The tyranny of the Medici had led not only to the political but also to the moral enslavement of the Florentines."⁹ Ultimately, "it was because Lorenzo knew how to make them feel happy and prosperous that the masses remained loyal to him at the time of the conspiracy of the Pazzi."¹⁰

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Endnotes

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- 4 John M. Najemy, *A History of Florence 1200-1575*, (Malden, MA: Blackwell Publishing, 2006), p. 357.
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Chapter Fourteen

Bread and Circuses

The Pazzi conspiracy allowed Lorenzo to solve the problems facing the Medici bank, but he still faced serious foreign policy issues. Naples and the papal states were still at war with Florence, but Lorenzo resolved these issues with a combination of good luck and bold initiative. During the summer of 1480 the Ottoman Turks attacked the city of Otranto on the Italian peninsula, and the spasm of fear which this attack sent through Christendom convinced the pope to patch up his differences with the Medici. Faced with a much more dangerous enemy to the east, Sixtus relented and agreed to receive a peace delegation from Florence which did not include Lorenzo in person, nor did Lorenzo have to ask personally for forgiveness for murdering Archbishop Salviati. All of this was placed into the hands of the Florentine delegation, which soon re-established relations between Florence and Rome without causing Lorenzo to lose face.¹

By the time the pope came around, Lorenzo had already concluded a separate peace with Naples by showing up at Ferrante's doorstep and offering himself as a hostage who could then reason with the man who held him in jeopardy. The ploy worked and Lorenzo returned in triumph to Florence in March 1480 with even more power than he had acquired after the attempt on his life had failed.

After consolidating his power in the wake of the Pazzi conspiracy Lorenzo inaugurated a regime of bread and circuses to distract the population from the recession into which the failure of the Medici Bank had plunged Florence. That regime has come to be known as the Renaissance. Lorenzo continued the academy founded by his grandfather, Cosimo, and brought to fruition the magic Cosimo had introduced.

The Platonic Academy, which Cosimo, under the influence of Plethon, had founded at the beginning of the '40s, was at its most influential with Lorenzo at the center of it by the mid-'70s. Its "Father" was Marsilio Ficino, who had been originally appointed Lorenzo's tutor and given a secluded villa and farm at Montecchio, near Careggio, which became the official headquarters of the Academy, where he worked on making an accurate translation of the entire works of Plato—a monumental project which he completed in 1491 at the age of 58.²

Like his father and grandfather, Lorenzo surrounded himself with the best minds of his age. He also supported them financially, and what is more important, he inspired them with a common vision—Florence was

to be the culmination of the classical culture interrupted by Christianity. Lorenzo wrote a play about Julian the Apostate and played that character when it was performed. Like Julian, Lorenzo was going to restore paganism to its former glory.

Lorenzo continued to be a patron to Marsilio Ficino, "who was now regarded as the high-priest of Platonism."³ In his treatise on happiness, which he dedicated to Lorenzo, Ficino claimed that the fruition of knowledge is in pleasure, and therefore "pleasure and Joy, in a Platonic lover, are superior to enquiry and vision."⁴ But Lorenzo's great discovery was Pico della Mirandola, a man 14 years younger than Lorenzo and an intellectual prodigy who was the intellectual marvel of his age.

Pico was tall, blonde and handsome. Sir Thomas More, his first English biographer, speaks of "the comeliness of his body. . . the lovely flavor of his visage," and "his marvelous frame," which "set many women on fire for him." Since their desire kindled Pico's own, he was, says More, "somewhat fallen into wantonness." Apparently this didn't keep him from spending what More described as "long sleepless nights on the scholastic doctors."⁵

Financially, Pico was Lorenzo's equal because of the fortune he had inherited from his father. But money was a means to a greater end. After transferring from Bologna to Padua, where he could study philosophy, Pico began to dabble in neoplatonic magic. Once Pico had been adopted into the Medici version of the Platonic academy, he took their magical quest to new heights by learning Hebrew and introducing the mysteries of the Cabala and Jewish magic to the discussion of the neoplatonic texts. Pico studied Hebrew under famous rabbis like Eliah del Medigo and incorporated Cabalistic lore into his *Conclusiones*, many of which were condemned by the Church.⁶

Like Lorenzo, Pico could never quite let go of Christianity, and his attempt to reconcile Platonism, Christianity and Cabala lent a kind of syncretism (and instability) to his writings. His theory of "vestiges of the Trinity" is a good example. "He that understands clearly," wrote Pico in one of his *Conclusiones*, "how the unity of Venus is unfolded in the trinity of the Graces, and the unity of Necessity in the trinity of the Fates, and the unity of Saturn in the trinity of Jupiter, Neptune and Pluto, knows the proper way of proceeding."⁷ Pico's views mirrored Ficino's, who had written: "The Trinity has left its mark on every part of Divine Creation and the bounty conferred by the gods on lower beings was conceived as a king [sic, kind] of overflowing (*emanatio*) which produced a vivifying rapture or conversion. . . whereby the lower being were drawn back to Heaven to rejoin the gods."⁸ Ficino's understanding of the Trinity was stultified by both the neoplatonic idea of emanation and the similar doctrine in the Zohar which culminated the "Tikkun Olam," or healing the world, the battle cry of Jew-

ish messianic politics.

When Pico and Ficino met with Johannes Reuchlin in the 1480s, Reuchlin introduced this toxic magic cocktail to regions north of the Alps, where it gave birth to humanism and eventually the Reformation.⁹ Lorenzo continued the meetings of the Platonic academy which had begun under his grandfather's patronage. Sometimes the adepts met at the Medici Palace on the Via Larga; sometimes they met at the rustic villa which Cosimo had provided for Ficino in the hills outside Careggi. Wherever they met, Lorenzo played the role of philosopher king, and those who benefited from his largesse constitute some of the greatest names in the history of art, sculpture and Italian literature.

Lorenzo found Michelangelo copying the head of a faun in the Medici gardens. Impressed by the youth's talent, he arranged for him to continue his studies while living in the palace on the Via Larga. A bas-relief of the battle of the centaurs which Michelangelo sculpted during his student days was suggested to him by Poliziano, who, along with Lorenzo, his patron, was one of greatest poets of the Italian language. Poliziano was also the tutor to Lorenzo's children, a role which caused consternation in the Medici family when Clarice objected to his homosexuality and had him banned from the Palazzo Medici for two years.

Lorenzo's regime was based on pleasure, but Lorenzo learned more than just hedonism from the classical texts he had mastered as a youth. He learned how to bring about the political mobilization of pleasure as a form of political control. The dream of financial magic died when Lorenzo's father Piero tried to call in his loans, but his son continued the magical tradition by applying it to politics. Lorenzo's great achievement was not the magic of finance that his grandfather had attempted and which his father has found illusory, but the political magic that attended lavish spectacle. Florence was ravished by the beauty which Lorenzo's patronage enabled, and Lorenzo was not slow in putting it to political use.

In 1482 Sandro Botticelli painted the *Primavera* to celebrate the return of Spring, i.e., pagan culture, to the city of Flowers, i.e., Fiorentina, the Latin name for Florence. Botticelli was five years older than Lorenzo and like him had been raised in the Medici palace by Piero and Lucrezia, who treated him like another son. Because of his upbringing, Botticelli was especially sensitive to the Medici worldview and his paintings convey that vision in an especially compelling manner. His *Primavera* is an illustration of a passage from Ovid, suggested to Botticelli by Ficino, which describes "a beautiful garden in which eternal spring reigns."¹⁰ The painting is framed by two male figures. On the right at the narrative beginning of the painting, the cold March wind makes contact with Chloe, who begins vomiting flowers as a result, in a symbolic expression of her transforma-

tion into Spring, and Spring's subsequent transformation of the garden into the realm of Flowers. Florence, in Latin *Fiorentina*, was known as the city of Flowers in the ancient world, and the transformation which Botticelli portrays indicates a rebirth, a return to a more ancient identity under the guise of a new Springtime. The male figure at the other end of the painting is Mercury, who stirs the clouds with his caduceus, which is a long-recognized symbol of commerce. Mercury has been identified as the late Giuliano de Medici, but he could just as easily be Giuliano's brother Lorenzo. Either way, Mercury is a de Medici whose financial magic was essential to both the rebirth and preservation of Florence as the pagan city of flowers. In his *Primavera* Botticelli conflates two moments from "Ovid's narrative, the erotic pursuit of Chloris by Zephyr and her subsequent transformation into Flora." In his treatise on Platonic Love, Ficino claims that "Amor starts from Pulchritudo and ends in Voluptas."¹¹

This phrase from Ficino could serve not only as a guide to Botticelli's painting but also as a one-line description of Florence under Lorenzo's rule. By the time Lorenzo died, the Medici family had spent between 600 and 700,000 florins in restoring Florence to their idea of its ancestral pagan glory, but "Pulchritudo" eventuating in "Voluptas" was only half of the story. Lorenzo used the caduceus of Mercury in less admirable ways. Lorenzo paid for beauty as a way of stirring up a desire for pleasure in the populace, and then he put that desire for pleasure to political use by using it to enslave the populace and distract them from the harsh realities, financial, political and social, which Medici rule had brought down on their heads. Botticelli's *Primavera* "shows the return of Venus and her court to the City of Flowers."¹² What it does not show is the baggage of political and financial oppression Venus brought along with her when she re-introduced paganism to Christian Florence. Most Florentines could not see what was really happening because they were blinded by the Voluptas that followed in Pulchritudo's train.

What Lorenzo learned from neoplatonism (or neoplatonic magic) was "to rule without the appearance of ruling."¹³ He did this largely by orchestrating key appointments from behind the scenes. As one example, "Lorenzo controlled fiscal policy through his 'minister' of the Monte."¹⁴ This allowed him to appropriate "substantial public funds. . . for his personal needs and got his hands on still more from various communal accounts, while his Monte officials withheld interest payments from citizens."¹⁵

However, the main way in which Lorenzo ruled without the appearance of ruling was by the programmatic arousal of passion. Lorenzo collaborated with Poliziano in composing a series of erotic songs to celebrate May Day and then had the music master of the chapel of San Giovanni set them to music. His greatest accomplishment in this regard was the intro-

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duction of carnival. To show how seriously he took this state-sponsored period of carousal and debauchery, Lorenzo composed a whole series of canti carnalschialeschi or carnival songs, the most famous of which was "The triumph of Bacchus":

Quant'è bella giovennezza
Che si fugga tuttavia
Chi vuole esser lieto sia
Di doman non v'è certezza
Donne e giovanetti amanti
Viva Bacco e viva amore
Ciascu suoni balli e canti
Ardi di dolcezza il cuore
Non fatica non dolor
Cio c'ha esser convien sia.
How beautiful youth is
But it goes by so fast.
Let he who will be merry
For of tomorrow there is not certainty
Woman and young lovers long live Bacchus
And long live love!
Let everyone sing and dance
Let the hear burn with sweetness
No work, no pain.
It's better to be as you want to be.¹⁶

"Di doman non v'è certezza" is a direct translation from the Greek. Lorenzo studied the history of Greece and Rome "to devise his own pattern of sovereignty and provide his own methods of exercising and maintaining it."¹⁷ Those methods included, "the manipulation of ballot-boxes, of councils and of committees, the pulling of political wires and expertise in bribery, the provision of bread and circuses."¹⁸ Machiavelli, referring to the famous joust memorialized by Pulci's poem, says that Lorenzo "learned how to distract the attentions of the citizens from the tense political situation"¹⁹ while his father was dying. Then, as well as during the subsequent celebrations of carnival under his reign, "everyone was made to feel happy and prosperous."²⁰

Occasionally, the mask of the benevolent libertine would slip and the grim face of the tyrant would reveal itself, as when Lorenzo broke up a crowd that was trying to help a condemned man escape and ordered the execution on the spot. Lorenzo then "ordered the seizure, torture and exile of four people from the crowd who had encouraged the condemned man to escape. These were the powers of a prince above the law."²¹ But this was the exception rather than the rule. Lorenzo preferred to rule through the

passions of the populace.

Lorenzo kept the populace in line by encouraging them to participate in lavish public spectacles, which required weeks, if not months, of arduous preparation. In 1491 Lorenzo sponsored the San Giovanni festival, which involved a re-enactment of the Roman general and consul Lucius Aemilius Paulus' triumphal return to Rome after his conquest of Macedonia. The procession involved 14 booty-laden wagons drawn by 50 yoke of oxen. It was Lorenzo's idea from start to finish, and meant to portray him as a Roman hero whose beneficence and valor were essential in protecting the republic (Rome and Florence) from its enemies.

The concept (as well as the funding) came from Lorenzo, but the execution was carried out by the *potenze*, which were the descendants of the neighborhood and occupational groups which had provided the workers the organization necessary to overthrow the government during the Ciompi rebellion of 1378. The descendants of "textile workers who had been driven from the political stage a century earlier and now reappeared in festive garb."²² Dressed as "emperors," "kings," and "nobles," they celebrated their political impotence and financial subjugation. Lorenzo was thus able to mobilize marginalized groups of youths and workers, who if left to their own devices and left to think their own thoughts, might have mobilized in their own interests instead. In doing this, however, Lorenzo provided a model of community organization which Savonarola would use for a much different purpose shortly after Lorenzo's death.

With the populace distracted, Lorenzo was able to continue looting the state treasury for the funds necessary to pursue his foreign policy, the chief goal of which was getting his son Giovanni made a cardinal. When Sixtus IV was replaced by Pope Innocent in 1484, Lorenzo saw his chance. Having a Medici in the college of cardinals would re-establish good relations with the papacy, which was the first step in getting the Medici Bank restated as financial agent of the Curia, which was crucial to reviving the bank's now moribund condition. The fact that Giovanni was only nine years old when Innocent became pope did nothing to deter Lorenzo, who had his troops seize the abbey of Passignano so that he could install his nine-year-old son as abbot and start collecting the abbey's benefices.

After five years of being badgered by Lorenzo, Innocent finally relented and made Giovanni, who was then 13, cardinal. This project had cost Lorenzo a small fortune. Giovanni Cambi put the cost at 50,000 florins, Alamanno Rinuccini at 200,000. Whatever the Medici cardinal's hat cost, the sum almost certainly came from the public treasury, which Lorenzo had become accustomed to treating as his own.

This act of simony would have far-reaching consequences when Giovanni became Pope Leo X in 1512. Upon ascending the throne of Pe-

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ter, Lorenzo's son is reputed to have said that God made him pope and he planned to enjoy it. Lorenzo's accomplishment in Florence was so dazzling that it blinded his own family as much as it had blinded the populace whose money had made it possible. The Renaissance papacy under the Medici pope had become so blinded by its own splendor that it failed to see that a reaction was underway in Germany. Five years into Leo's papacy, Martin Luther posted his theses and inaugurated a revolution that would shatter the unity of Christendom, destroy the Church's police power, and leave the Church intellectually incapable of resolving the usury issue and of enforcing a resolution. Leo famously dismissed Luther's revolt as a monks' quarrel, and because he did, usury was able to find state sponsorship in countries no longer under Catholic control.

The reformation began in what we now call Germany, but at the time Germany was an incredibly complex mosaic of fiefs, duchies, principalities, and independent city states, all of which derived whatever unity they had from common custom, common language and membership in the Holy Roman Empire. The political unit which Europe had inherited from the Roman Empire was the city-state, but at the very moment that the unity of Christendom was shattered, the city-state was on the verge of being replaced by a much more powerful political and economic unit known as the nation-state, and they—countries like England, Holland, Spain and France—would become the significant players in the next era of economic history.

Endnotes

- 1 John M. Najemy, *A History of Florence 1200-1575*, (Malden, MA: Blackwell Publishing, 2006), p. 361.
- 2 Hugh Ross Williamson, *Lorenzo the Magnificent*, (London: Michael Joseph, 1974), p. 133.
- 3 Williamson, p. 135.
- 4 Ibid.
- 5 Rachel Erlanger, *The Unarmed Prophet: Savonarola in Florence*, (New York: McGraw-Hill Book Company, 1988), p. 26.
- 6 Ibid.
- 7 Williamson, p. 142.
- 8 Ibid.
- 9 See Chapter on Reuchlin and Pfefferkorn in E. Michael Jones, *The Jewish Revolutionary Spirit*.
- 10 Williamson, p. 142.
- 11 Williamson, p. 145.
- 12 Williamson, p. 152.
- 13 Williamson, p. 146.
- 14 Najemy, p. 363.
- 15 Ibid.
- 16 Erlanger, p. 15.
- 17 Williamson, p. 146.
- 18 Ibid.
- 19 Williamson, p. 91.
- 20 Erlanger, p. 15.
- 21 Najemy, p. 363.
- 22 Najemy, p. 371.

Chapter Fifteen

Savonarola and the Aborted Reform

Ten years after the Bruges branch of the Medici bank went bust, at the beginning of Lent in 1488, which is to say, just after Lorenzo introduced the celebration of carnival to Florence, the Franciscan preacher Bernardino da Feltre delivered a number of sermons attacking Jewish usurers and demanding the formation of a *monte di pietà* in Florence. The *monte di pietà*, or charitable civic pawnshop, was a place where:

The poor could pawn an item of some small value: a cap, a table knife, a cup, even a book. The owner of the pawn then received a loan based on the value given the pawn by an assessor working for the *monti di pietà*. The owner might redeem the pawn at any time within a year by paying back the loan plus a low interest charge, usually 5 percent. After one year the monte could sell at auction any unredeemed items. As brokers of small loans against pawns, Italian *monti di pietà* were expected not only to replace Jewish moneylenders but also to set up the conditions in which all Jews could be expelled.¹

After studying law in Padua, Bernardino da Feltre joined the Franciscan order in 1454 and became one of the most eloquent advocates for the plight of the poor who were the victims of nascent capitalism in northern Italy by advocating the creation of *monti di pietà* and the expulsion of the Jews.

The first *monte di pietà* was founded in Perugia in 1462. Bernardino began his crusade against usury in 1484 and before long he was one of the most sought-after preachers on the Italian peninsula.

In 1488 the Franciscans made a second attempt to establish a *mons pietatis* in Florence, the first one having failed in 1473, when Francesco Coppoli, a friend of Pope Sixtus IV, who himself had founded a *monte* at Assisi, failed to get the necessary backing. Toleration of the Jews, because they were willing to lend money to the *popolo minuto*, was an essential part of Medicean policy.

The governor of Genoa attributed the founding of the *monte* in that city to Bernardino's arguments and advice. Bernardino claimed that the conventional Jewish-run pawnshops were neither convenient nor necessary for the poor they were intended to serve. They were certainly not useful because the poor, far from being helped, ended up being ruined by the extortionate interest charges they were forced to pay. The poor needed an institution based on charity and not on usury. The interest charged at the *monte* was a small fraction of what the Jews charged and since it was necessary to cover administrative costs it could be construed as an extrinsic title and therefore not usurious. When a *monte* opened in Lucca, the

local bishop "cited the teachings of Bernardino that it was not usurious for an institution to collect such a fee in order to pay operating expenses."² Bernardino's preaching had convinced the city of Mantua to open a *monte* there to serve the poor. The same thing happened shortly thereafter in Siena, where Bernardino presided over a bonfire of the vanities as well. Before long *monti* started springing up in the wake of his preaching.

Jewish historians portray the *monti* as failures. As proof Poliakov claims that many customers "continued to prefer the Jews" even after the founding of a local *monti di pietà* because the first *monti* "fixed a statutory limit to the total amount of sums lent, which could not exceed a ceiling varying from 2 to 20 florins."³ The Jews, on the other hand:

proved more accommodating than the official estimators when valuing the security, and that they had a more practiced reliable eye. Given the possible state of mind of people harassed by need, this is a first significant reason for many a hard-pressed client to go to the Jews. In addition, the banco was open at any hour of the day, the *Monte di pietà* only at certain hours or certain days (two days a week at Rome, in the 16th century, for example; at Milan three days a week). To the advantage of speed was added, of course, that of greater simplicity, of formalities reduced to a minimum, of the absence of embarrassing and above all, humiliating supervision.⁴

Poliakov goes farther by claiming that "all the Jewish banks constituted a public service,"⁵ but he can make this claim only by ignoring the devastating cumulative effects of compound interest over any significant period of time. An initial loan of 100 florins taken out at 32.5 percent interest (well below the industry standard of 43 1/3 percent charged by most Jewish pawnbrokers) would end up costing the lender 50 million florins after only 50 years. The *monti di pietà* corrected the abuses of the Jewish pawnbrokers.

By the time Fra Coppoli attempted to found the Florentine *monte* in 1473, the Jews who had been expelled in 1470, were back in business. Just about everyone who writes about Franciscan efforts notes that the founding of the *monti* and the expulsion of the Jews were two issues immutably linked in the minds of the Franciscan preachers. Coppoli's failed attempt in Florence in the 1470s gives some indication of why. No *monte* could get off the ground if the Jews were still in business. The problem lay not with the interest charged; no poor man would chose a Jewish loan at 43 1/3 percent when he could borrow from the *monti* at 5 percent. The problem was the accumulation of capital. No one would deposit his money as an act of charity in the *monti* when he could earn 12 to 14 percent per annum with the Jews. And with a profit deriving from the 30 point spread they made on loans, the Jews were not going to give up their privileges without a struggle. Far from being evidence of some gratuitous anti-Semitism, the Franciscan insistence on the expulsion of the Jews was only the logical extension of their attempt to found the *monti di pietà*. It was the other side of the same coin. No *monte* could survive the

drain on capital that the Jewish pawnshops created among well-to-do Christians by offering them lucrative risk-free investments for their money.

The conflict between the Franciscans and the Jews had been building since the beginning of the 15th century, when St. Bernardine of Siena and St. John Capistran attracted large crowds and equally large popular support by attacking the privileges of the Jews. The higher clergy in general and the pope in particular were silent on the matter largely because they were the main beneficiaries of Jewish money. Because of the way compound interest increased the amount of money that needed to be repaid on even a small loan, the cries of the poor grew exponentially over the course of the 15th century as more and more people fell hopelessly into debt. The plight of the poor in Florence was, if anything, worse than other Italian cities largely because of the financial policy which Cosimo de Medici had inaugurated when he returned from exile in 1434. Medici financial policy put a triply unfair burden on the poor, who not only had to pay onerous taxes to support an unending series of wars with a debased silver currency, but also had to borrow the money to pay their taxes at usurious interest rates.

The Medici had always opposed the founding of a *monti di pietà* in their city. Cosimo's preferred solution to the credit needs of the poor had always been Jewish moneylenders, and under Lorenzo's watchful eye during the 1480s Jewish money lending reached its greatest extent, earned its greatest profit, and enjoyed its widest political influence.⁶ The renewal of the Jewish usury licenses (or *capitoli*) in 1481 on terms even more favorable to the Jews than previous *capitoli*, added to increasing financial stringency and increasingly heavy taxation (to pay for more wars fought in the interest of the Medicis), and had rendered the situation of the poor intolerable and lent new urgency to Bernardino's preaching in favor of founding a *monte*. Since the Medici had granted *capitoli* to Jewish usurers so that the poor could borrow money to pay their taxes, the prospering of Jewish usurers during the 1480s was some indication of the misery suffered by the poor.

Given the explosive nature of the financial situation it's not surprising that Bernardino da Feltre's speech eventuated in violence. The Franciscans had been preaching against usury for over half a century (Bernardino da Feltre took his name from St. Bernardine of Siena) and the situation had only gotten worse, something which persuaded many of Bernardino's listeners that the time had come to take the situation into their own hands and expel the Jewish usurers themselves.

According to Landucci's account, a number of boys who had listened to Bernardino's sermon "went to the house of a Jew called Manullino, who was a moneylender at the Vacca, wanting to assassinate him and to pillage his premises."⁷ At this point the civil authorities intervened. The *Otto di Guardia e Balìa* "promptly sent their men to stop the mischief and published proclamations threatening offenders with the gallows."⁸ This ended to the immediate threat, but the situation remained explosive largely because of the public awareness of the deleterious effects of usury. To deal with the long-term threat, the representatives of the Eight

returned the next day and revoked Fra Bernardino's preaching privileges, and, perhaps sensing that this measure didn't go far enough, they showed up in person on the next day and banished him from the city. Then, on March 1, 1488, the Eight followed up Bernardino da Feltre's expulsion with a decree "imposing heavy penalties on any who dared offer violence or disturb the peace of, the Jewish community."⁹

Landucci was outraged at the Eight's behavior, because Bernardino was "considered a saint."¹⁰ Beyond that, the mob's action, while perhaps imprudent, was consistent with a desire to live a Christian life, which is to say, one not burdened by the exactions of usury. As if to show that God shared his view of the incident, Landucci recounts how:

it was not long before misfortunes happened to some of these "Eight"; one of them broke his neck by falling from his horse, another this and another that. Amongst the rest, the one who had gone in person to drive Fra Bernardino away from the Osservanza died mad in hospital. Thus the matter ended ill. God save us!¹¹

Landucci was right to suspect foul play. The Eight acted on the direct orders of Lorenzo, who had just received a 20,000 gold florin bribe from Vitale da Pisa, one of Florence's biggest Jewish moneylenders. Jewish sources corroborate the charge: "According to the *Acta Sanctorum*, Yehiel Isaac da Pisa succeeded in obtaining the expulsion of the anti-Jewish preacher Bernardino da Feltre from Florence in 1488 by bribing Lorenzo the Magnificent."¹² Salter claims that:

it was neither the bribery of Vitale nor the misplaced zeal of Bernardino which caused its [the *monte*'s] failure but rather (it would appear) the continued necessity in time of financial stringency of such easy credit for the *popolo minuto* was something the Jews alone could provide. Public funds could certainly not have produced the necessary endowment for the Mons, and there was no real evidence that private charity could do it either.¹³

Salter was, of course, wrong. Once it got off the ground, the Florentine *monti di pietà* proved to be spectacularly successful, so successful that it succumbed to the occupational hazard of all successful economic ventures in a capitalist society, namely, looting. Duke Cosimo I took over the *monti* during the mid-16th century and turned it into his own private bank, using it not to serve the poor but to provide himself and his supporters with low interest loans. But we get ahead of our story here.

Endnotes

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- 2 Menning, p. 34.
- 3 Leon Poliakov, *Jewish Bankers and the Holy See: From the 13th to the 17th Century* (London: Routledge & Kegan Paul, 1977), p. 156.
- 4 Poliakov, p. 157.
- 5 Poliakov, p. 147.
- 6 F. R. Salter, "The Jews in 15th Century Florence and Savonarola's Establishment of a Mons Pietatis," *Cambridge Historical Journal*, Vol. 5, No. 2 (1936), p. 196. "The 1480s saw the Jewish activities at their height."
- 7 Luca Landucci, *A Florentine Diary: From 1450 to 1516* (New York: Arno Press, 1969), p. 45.
- 8 Landucci, p. 45.
- 9 Salter, p. 206.
- 10 Landucci, p. 45.
- 11 Landucci, pp. 44-5.
- 12 Poliakov, pp. 118-9.
- 13 Salter, p. 206.

Chapter Sixteen

The Fall of the Medici Bank

Lorenzo died at his villa in Careggi on April 8, 1492 and was succeeded by his son Piero, whom historians have named the Unfortunate. Piero's main interests were women and sports. Raised to consider himself an aristocrat because of the Orsini heritage of his mother, Piero viewed the republican customs of Florence with ill-disguised contempt. Even Lorenzo was troubled by his son's arrogant behavior and, according to Guicciardini, "Frequently lamented to his most intimate friends that his son's recklessness and arrogance would be the ruin of the house of Medici."¹

By January 1494, a mood of grim foreboding had settled over Italy. Omens had appeared at the death of Lorenzo, and Savonarola, ever sensitive to the signs of the times, preached sermons that enhanced the mood of doom, claiming that Charles VIII was "a new Cyrus"² who was preparing to cross the Alps to be the scourge of God, who would purify the pollution which the Medici had brought about in Florence. When Pico heard Savonarola claim that God was going to pour down water over the earth,³ he claimed that the shiver that passed through his body made his hair stand on end. Michelangelo, another Medici protégé who was working for Piero at the time, left what he felt was the sinking ship without telling his employer and headed for Venice.

Faced with the most serious crisis of his short reign, Piero responded by spending "whole days in the street publicly playing football."⁴ When that didn't resolve the crisis, Piero took a page from his father's book of governance and confronted the King of France in the camp of the French army. Unlike Lorenzo, who split the papal alliance by concluding a separate peace with Ferrante, Piero gave away the store. "Piero agreed to turn the fortresses of Sarzana, Sarzanella, and Pietrasanta over to the French for the duration of the Neapolitan expedition," when he could have held off an army twice as large as King Charles' because the road the king had to traverse to get to Florence "was so narrow in many places that a wagon with two pieces of artillery thrown across it could effectively bar the way."⁵

When word of Piero's blunder reached the Signoria, it unleashed a rebellion against the last vestiges of Medici rule. Neri Capponi rose and announced that "Piero de Medici is no longer fit to rule the state"⁶ and then inadvertently named the new ruler of Florence when he suggested that Savonarola should go to the French king and seek to undo the damage which Piero's imprudence had wrought.

Sensing that he was losing control, Piero tried to rally the populace against the Signoria with cries of “palle” (referring to the balls which symbolized the House of Medici), but every time he did, the hostile mob responded by shouting “Populo et liberta!” instead. Realizing that his power was gone, Piero rode his horse out the San Gallo gate in the direction of Bologna, never to return, and with his inglorious retreat 60 years of Medici rule in Florence came to an end.

The mob then marched on the Medici palace and began looting the treasures it had taken the Medici almost a century to acquire. On the same day, November 10, 1494, King Charles reached Pisa, the port which Florence had spent a fortune to acquire. Parks claims that on November 10, “a hundred years of careful accumulation was lost in a matter of hours.”⁷ This included more than just the works of art carted off by the sottoposti during the looting of the Palazzo Medici. Cosimo’s elaborately constructed political and financial system and all the innovations which that necessitated in the republic’s constitution were dismantled, and the taxes which were levied to pay for it were abolished as well. Last but certainly not least, “the Medici Bank and all its assets were confiscated.”⁸ In addition, the man Lorenzo appointed as the head of the Monte was executed for embezzlement. De Roover claims that “the descent [of the Medici Bank] became precipitous after the death of Lorenzo,” but goes on to claim that “what caused the crisis remains a mystery.”⁹ Mysterious or not, deposit banking died on Lorenzo’s watch and remained dead for almost a century after his death.

Parks claims that a “trajectory” of decline was “clear enough.” It involved a “vertiginous rise of fortune,” followed by “two and a half decades of political ascendancy predicated on a wealth that is rapidly disappearing. Followed by sudden and complete collapse.”¹⁰ But neither man ever gets around to telling us what it was, much less what caused it. De Roover discerns nothing as specific as a trajectory, which implies a path that is mathematically predictable, when he claims that over the course of the 15th century, “the Medici Bank went through a period of expansion, which ended with Cosimo’s death in 1464, and a period of decline, which slow and gradual at first, gained momentum after 1478, the year of the Pazzi conspiracy, which shook the Medici edifice to its foundation.”¹¹

The trajectory was there, but what neither man can see is that the trajectory of usury has become invisible because it was associated with a delict which ceased to exist right around the time the Medici Bank went bust. The trajectory of usury is invisible largely because “usury today is a dead issue, and except by a plainly equivocal use of the term, or save in the mouths of a few inveterate haters of the present order, it is not likely to stir to life.”¹² What John Noonan said in 1957, seven years after the first credit card had been issued, when there were still anti-usury laws on the books is *a for-*

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tiori true today when credit card companies can charge interest with impunity at rates not seen since the heyday of Jewish moneylending in Florence.

When it comes to the rise and fall of the Medici Bank, the reason for that decline was the same thing that made the rise of the Medici Bank possible, namely, usury, or as we would say today, leverage. The Medici were the bankers of the papacy, but more importantly, they were the bankers of Europe's princes, which is to say, European governments. The Bardi and the Peruzzi, Florentine bankers of the 14th century, went bankrupt when King Edward I of England defaulted on his loans. It was a lesson the Medici failed to learn. But in this they were not alone. Seven hundred years after Bardi and Peruzzi banks went belly up after England defaulted on its loans, the European Union finds itself in much the same situation.

Over six centuries after the founding of the Medici Bank, countries like Greece—leveraged to the hilt, and unable to borrow their way out of debt—are seeking a way out of the trajectory of usury of the sort that Charles the Bold could only find in death and one which his creditor, the Medici Bank, could only find in exile and financial ruin. This is true for a very simple reason: the trajectory of usury has the same inexorable logic today that it had six hundred years ago when the first capitalist republic since the fall of the Roman Empire experienced its euphoric rise and sudden fall.

De Roover admits that the fall of the Medici Bank was inevitable:

If Medici rule had not been overthrown in 1494 because of Piero's political ineptitude and the French invasion, it might have ended even more disgracefully in a financial crash of the first order. The Medici Bank at this time was on the brink of bankruptcy.¹³

But then he backs away from the evidence he has accumulated:

The downfall is not traceable to a single cause but to a complex of circumstances and a combination of interacting factors whose importance it is impossible to assess. Some of the forces at work, such as the diminishing supply of English wool, were entirely beyond either Lorenzo's or Sasseti's control. Professor Robert S. Lopez goes so far as to assert that "even a skillful management would not have brought many dividends" and, presumably, would not have saved the Medici bank from impending doom.¹⁴

The situation is simpler than de Roover makes it out to be. The main piece of evidence which he produces but refuses to entertain seriously is the fact that the surviving balance sheets show that "the Medici were trading heavily on the equity."¹⁵ Which is another way of saying that they were exchanging equity for debt, the same recipe for disaster that America embarked upon during the leveraged buyouts of the 1980s. That meant that they were borrowing funds in the hope that business revenue "would generate returns in excess of the interest charges." De Roover erroneously claims that "this policy allowed them to accumulate huge profits as long

as the return on investment exceeded the interest. . . paid to depositors.”¹⁶

As proof that this policy worked, De Roover cites the success which Cosimo had during the firm’s “prosperous years,” when the Medici Bank “grew chiefly by plowing back earnings into the business and by setting aside generous reserves for bad debts.”¹⁷ In stating the case, this way, de Roover misreads the trajectory of usury, according to which, the first loans out of the till always get paid back, largely because both principal and interest come from the next tranche of loans. Catastrophe “was bound to ensue,” not “after mounting losses had wiped out the partners’ rather slender equity,”¹⁸ as de Roover puts it, but when the Medici Bank could no longer lend its creditors enough money to pay back the money plus interest they had already borrowed. Once that happened, which is to say, when Piero the Gouty tried to call in bad loans, the whole financial edifice collapsed like a house of cards, and the illusion of financial stability could only be secured by Lorenzo’s strategy, which combined looting (of the public treasury and his nephews’ trust fund) and the bread and circuses which has come to be known as the Renaissance.

During the course of the 15th century the Medici had spent an enormous amount of money. At a time when a palace could be built in the center of Florence for 2,000 florins, the Medici family, between 1434 and 1471, “spent the huge amount of 663,755 florins in buildings, charities and taxes, not including household expenses,”¹⁹ much of it going into great works of art. They also loaned out even larger sums of money, and wasted even larger sums fighting Florence’s never-ending series of wars.

What they never worked out was a plan to expand investment possibilities. Aside from individual ventures in commerce, there were two main investment possibilities in Florence: wool and silk. Because of all of the problems we have thus far discussed, i.e., contempt for labor, greed, the blindness which *auri sacra fames* naturally engenders in fallen human nature, usury, lack of solidarity, class conflict, etc., etc., the Florentine oligarchs viewed the cloth industry, their only real investment option, as a cash cow to be milked on their way to setting themselves up in banking. De Roover addresses the issue obliquely when he writes that:

As the Medici Bank increased in size, it also became increasingly difficult to find profit opportunities for idle funds. Tax-farming offered alluring opportunities for easy profits, but this step once taken almost inevitably led the farmer to grant anticipations on future revenues, a process which often ended with the debtor’s default and the creditor’s ruin. The toll of the Gravelines. . . was the wedge that drove Tommaso Portinari deeper and deeper into entanglements with Charles the Bold.²⁰

The real problem was lack of investment possibilities. Instead of being invested productively, Medici funds:

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were mainly used to finance either conspicuous consumption of royal courts or military campaigns from the War of the Roses to the exploits of Italian *condottieri* such as Sforza. It is not surprising that the Medici were unable to recover their money after it had been wasted in one way or another.²¹

Since investment possibilities were severely limited in Florence in the 15th century, the Florentines needed to expand them if they wanted make money, but that was something which required intelligence and energy. What negated both of those attributes was usury. St. Bernardine was right; usury killed both charity at the lower end of the social spectrum and entrepreneurship at the upper end. To use the vocabulary of the seven deadly sins, greed gave birth to sloth. The crucial middle term was usury, because it created the illusion among the ruling elite that money was not sterile. Lending to princes was both the occupational hazard and the default setting for Florentine bankers who were too greedy or too lazy to heed what the Church said and come up with real investment opportunities. De Roover calls the desire to take the easy way out, i.e., lending money at usury rather than sharing the risk in ventures that still needed to be discovered, “a congenital defect,”²² which makes it sound a lot like original sin, which has the advantage of situating this problem in its proper matrix, which is to say, in theology, and in particular, moral theology. It also helps explain how so many otherwise intelligent men were mesmerized by a scheme that they knew had to fail. Once “the financial type of sedentary merchant” began “to drift from private banking into government finance,”²³ doom was just over the horizon. Everyone knew this, and yet everyone seemed equally powerless to resist. “The Medici had before their eyes the example of the Acciaiuoli, the Bardi, the Frescobaldi, the Peruzzi and other Florentine companies which had been wrecked by loans to English kings and other sovereigns. Although the Medici were well aware of this danger, they were unable to steer clear of it and foundered on the same reef.”²⁴ It was like the irresistible lure of sin in an unredeemed world, which is to say, the state of affairs which had existed in the pagan world the Medici sought to revive.

The net result of this self-imposed blindness was “a depression which was both lasting and profound.”²⁵ All sorts of contributing factors enhanced the financial crisis which hit the Medici and other Florentine banking houses with such “irresistible force” during the last decades of the 15th century—lack of investment opportunities, demographic demise which began with the Black Death and lasted until the discovery of America, monetary instability based on the continuing debasement of the silver currency, decreasing quantities of English wool, incompetent and venal branch managers, etc.—but the main cause was usury. Usury lay at the heart of all the mysteries. No one understood that the magic which made money appear made it disappear just as fast. The net result was a catastrophic decline of

the world's premier banking culture:

By 1494 there were less than half a dozen bankers left, not enough to fill the offices of the Arte del Cambio. The decline was catastrophic. Thus the downfall of the Medici Bank coincided with the collapse of Florentine banking. Florence, it is true, re-emerged as a banking center in the 16th century, but it never regained its leading position as the financial capital of Western Europe.²⁶

Endnotes

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- 2 Erlanger, p. 81.
- 3 Erlanger, p. 85 "Ecce ego adducam aquas super terram"
- 4 Erlanger, p. 86.
- 5 Erlanger, p. 89.
- 6 Erlanger, p. 92.
- 7 Tim Parks, *Medici Money: Banking, Metaphysics, and Art in 15th Century Florence* (New York: W.W. Norton & Company, 2005), p. 246.
- 8 Parks, p. 249.
- 9 Raymond de Roover, *The Rise and Decline of the Medici Bank: 1397-1494*, (Cambridge, Massachusetts: Harvard University Press, 1963), p. 369.
- 10 Parks, pp. 4-5.
- 11 de Roover, *Medici*, p. 3.
- 12 John T. Noonan, Jr., *The Scholastic Analysis of Usury* (Cambridge, MA: Harvard University Press, 1957), p. 1.
- 13 de Roover, p. 370.
- 14 de Roover, p. 371.
- 15 Ibid.
- 16 Ibid.
- 17 Ibid.
- 18 Ibid.
- 19 Ibid.
- 20 de Roover, *Medici*, p. 372.
- 21 de Roover, *Medici*, p. 374.
- 22 de Roover, *Medici*, p. 372.
- 23 Ibid.
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- 25 Ibid.
- 26 de Roover, *Medici*, p. 374.

Chapter Seventeen

Marco Strozzi and the Florentine Monte di Pietà

Once Lorenzo died, the major obstacle to the founding of the *monte* in Florence was removed. Faced with the obvious incompetence and then ignominious flight of Lorenzo's son, Piero the Unfortunate, and the power of Savonarola's preaching, Florence began to move toward moral reform, both in sexual morals and financial practice. When his prophecies about the coming chastisement were fulfilled by the arrival of the King of France, the scourge of God, in November 1494, Savonarola's political clout increased immeasurably. When the King of France left Florence at his bidding, Savonarola's power increased even more. When "Florence narrowly escaped what would have been the greatest disaster in its history," the Florentines, according to Parenti, "thanked God and Savonarola."¹

As a way of repaying their thanks and in order to bring the reform he advocated in his preaching to completion, Savonarola got involved in politics at the end of 1494. Once the King of France left Florence at Savonarola's urging without sacking it, Savonarola became the city's *de facto* head of state. Florentine tradition dictated that the head of state needn't be an elected official, and this was the case for the Medici, beginning with Cosimo, and Savonarola, the man who replaced the Medici. In November 1494, the general assembly met to abolish "the instruments of Medici domination,"² and Savonarola began claiming that Florence could become the New Jerusalem if it would follow his agenda, by extirpating "those three sins: first, sodomy; second, luxury; third, usury."³

In December 1494, Savonarola called for the stoning and burning of sodomites, an initiative which passed by a big majority in December 1494. This law insisted on a swift enforcement of the penalty. Once the accused had been found guilty as a repeated and incorrigible offender, he was to be strangled and his body burned at the stake.⁴

The next item on the agenda was a new constitution. "Debates commenced as soon as the French departed. . . . An explosion of talk, debate, writing and ultimately theorizing about politics began in those chaotic days of 1494 and continued for two generations."⁵ Savonarola gave his most important political sermon on December 14. The reform consisted of a total repudiation of the principles of Medici rule. Savonarola dismissed Cosimo's belief that a state could not be ruled by paternosers as "not true, as

crazy and evil” and a “dictum of tyrants and not true princes.”⁷⁶ Savonarola then attacked Lorenzo’s regime of bread and circuses when he called for the elimination of the “feste,” which rendered the distracted population oblivious to the erosion of its real liberties. Things like the carnival revelry which Lorenzo introduced in 1488 were characteristic of tyrannies, not republics, and it was difficult to avoid seeing the Imperial Roman models Lorenzo had in mind.

Savonarola called for a reduction in taxes, and his preaching inspired the introduction of more equitable forms of taxation, when in February the Grand Council “imposed a single tax of 10 per cent on all income from property, abolishing all loans, levies and arbitrary assessments, besides creating a new taxation office to ensure impartiality when valuing property.”⁷⁷ The new system was more equitable and, because of its fairness, it “helped to reduce tension between rich and poor.”⁷⁸

Savonarola also called for “modest dowries,”⁷⁹ popular sovereignty consistent with Florence’s republican traditions, and above all else moral reform. Savonarola proposed the constitution of Venice as something the Florentines should emulate, “leaving out however certain things that are not appropriate and do not serve your needs, such as the doge.”⁸⁰

If the Signoria would follow Savonarola’s guidelines Florence could become a New Jerusalem, from “which the reform of Christian society would begin.” In that New Jerusalem, no one “will be forced by poverty to enter into bad contracts because, since there is good government in the city, it will abound with riches and there will be work for everyone and the poor will earn a living.” Savonarola promised the residents of Florence that if they followed his plan of moral reform, the city would be restored virtually over night and would become “like a paradise on earth.”⁸¹

The new constitution certainly got written with Savonarola’s ideas in mind, and his ideas represented the interests of a broad segment of the Florentine population, much broader than the monied interests who benefited from the Medici regime. Just before Christmas 1494, the Signoria announced that it intended to restore “the liberty that was for so long nearly suppressed and has recently been discovered.”⁸² The use of the word liberty in the context of moral reform meant that it didn’t involve the cynical manipulation of the passions of the masses which the Medicis had in mind when they promoted license in its name. Prepared by Savonarola’s teaching and a culture in which the Church still had a place of privilege in setting the terms of the debate, Florence embarked on a program of genuine political and economic reform.

Savonarola’s reforms were genuine because, being rooted in moral realism, they did not foster the interests of one class at the expense of another. Savonarola’s reforms most certainly ameliorated the lot of the *popolo*

minuto, but without resurrecting the fears of popular revolution which had haunted the oligarchs since the Ciompi rebellion. As a result, there was broad support for these measures. One commentator claimed that the plutocrats and oligarchs were unable to resist the will of the people, largely because the power of Savonarola's preaching had been enhanced by the course of recent events. But Savonarola was no demagogue. His preaching was solidly rooted in the gospels, the Catholic understanding of the moral law as the *sine qua non* of social progress, and the program of practical economic reform which the Mendicants, both Dominican and Franciscan, had preached in northern Italy for almost a century. Savonarola's presence and his reputation as a man of God and an honest broker eliminated the factional strife that normally would have led to civil war in a moment of upheaval like this. "Had it not been for this friar," one of his contemporaries wrote, "it would have come to bloodshed."³³

Our contemporaries, needless to say, have a different view of Savonarola's agenda, largely because they have lost all sense of the integrity of morals which is necessary to any political reform. *V for Vendetta* is a good example of film which misunderstands the connection between the moral and political orders, and construes liberty in a way which tyrants like Lorenzo would have found perfectly compatible with their political goals. The Guy Fawkes masks which the film popularized have become a fixture at anti-Wall Street, anti-Globalism rallies.

Williamson's biography of Lorenzo articulates the same point of view. Williamson even claims that Savonarola's views "had very little, if any, connection with Christianity. For him 'sin' was 'sex.' He was the archetypal puritan who had no understanding of the religion of the Incarnation."³⁴ Williamson can say this only by ignoring the monotonous regularity with which condemnations of usury appear in Savonarola's sermons. Unlike modern political ideologues, Savonarola accepted all ten commandments, not just those compatible with promoting the political agenda of the right or the left. Williamson tries to undermine the integrity of Savonarola's morals by claiming that Savonarola "admitted in 1498 that for 14 years he had never made a genuine confession—a period which covered the whole of his time in Florence."³⁵ Williamson neglects to tell us that Savonarola made this admission under torture, and that it has as much validity as any other statement made under torture.

A generation raised on sexual liberation is not likely to look kindly on a reformer who makes sodomy a capital crime. Similarly, a culture that has been nurtured on Whig myths about the origins and cultural benefits of capitalism is not going to look kindly on a man whose financial reforms were based on a condemnation of usury as being just as sinful as sodomy. But this is a comment more on our generation than his, and a condemna-

tion not of his principles but our own.

The founding of the *monti di pietà* was a crucial element in the financial reform of Florence after so many years of corruption fostered by the Medici: "A fiscal crisis, the death of Lorenzo in 1492, the ignominious expulsion of his maladroit son two years later and the pietistic revival under Savonarola all combined to create the conditions in which those urging a *monte* would have their way."⁶

For Savonarola, as for Dante, usury was "an offence against God's goodness."⁷ No reform of Florentine morals would have been complete without relief of the poor, who had suffered so long under the yoke of the Medici. When Savonarola urged the Florentines to "expel the Jews from your land,"⁸ he was only preaching the logical corollary of the same moral imperative that urged the founding of the *monte*.

The founding of the *monte* was, in many ways more difficult than the creation of the new constitution, because the constitution sought to revive republican traditions that had fallen in desuetude, whereas the *monte* was an institution which had never before existed. "For their proponents, *monti di pietà* constituted part of a broader program of reform. In a letter to Bernardino da Feltre, Bernardino da Ferrara. . . observed the connections between the erection of that town's *monti di pietà* and what he perceived as an overall renewal of piety and civic order."⁹

The founding of the *monte* could not have come about without the preaching of Savonarola, but just as important was the practical work of Fra Marco di Matteo Strozzi. Unlike Savonarola, who was always viewed as a foreigner, Strozzi was a native Florentine who came from one of Florence's wealthiest and oldest families. Because the Strozzi could trace their line back "to the days of the first Roman emperors, as Cornelius Tacitus recounts,"¹⁰ Fra Marco, as a native and scion of one of the city's wealthiest families, could count on the support of the other oligarchic families, men he considered his social equals.

The Palazzo Strozzi was the grandest palace in Florence, but Filippo Strozzi died before he could move into it, and after his death bags of gold were found in the basement of his former residence. Palazzo Strozzi was at one and the same time a monument to the wretched excess of the Medici era and a caveat that could have been used as a contemporary illustration of the parable of the rich man who built two barns and died in his sleep before he could fill them. If the life and premature death of Filippo Strozzi could be construed as a cautionary tale, then the life of Marco Strozzi, scion of the same family, could just as easily be construed as the moral appended to that tale. Both men's lives illustrated parables from the gospel. Unlike the rich man in the gospel who "went away sad," Fra Marco Strozzi, like St. Francis of Assisi, the founder of his order, renounced privilege and wealth

in favor of vows of poverty, chastity and obedience.

When it came to political connections, financial skills, and the ability to make things happen that comes from knowing the right people, Strozzi made up for everything that Savonarola lacked. Fra Marco was "a man with an innate sense of business," and as such it was he "who breathed life into the fledgling institution."²¹ "Like other Florentine patricians," Fra Marco Strozzi had "a keen business sense," which even his vow of poverty couldn't efface.²² Instead of using that business sense and the connections which went with it to enrich himself, as so many of the higher clergy had done, Strozzi sublimated it into the efforts necessary to create the first *monte* in Florence.

For over half a century, the Franciscans were in the forefront of efforts to found *monti di pietà* and expel the Jews. They were often opposed by the Dominicans, who claimed that the *monte* was just as guilty of usury as the pawnshops of the Jews, but in Florence this antagonism never arose. Savonarola was a Dominican, and he gave wholehearted support to the idea of a Florentine *monti di pietà*. More importantly, he worked closely with Franciscans like Strozzi to bring it into existence. In Florence the Mendicants presented a united front. That, and the fact the Medici were now gone after 60 years of sophisticated tyranny and economic exploitation, allowed the possibility of moral and economic reform for the first time since 1378.

This is not to say that Fra Marco didn't spend his time preaching as well. The Franciscans had been in the forefront of efforts to found *monti* and expel the Jews ever since the preaching of Sts. Bernardino of Siena and John of Capistran in the 1420s. Like them, Fra Marco "fervently preached" on both themes. Menning claims that Fra Marco:

was obsessed by the presence of the Jews in his native city. His papers enumerate the alleged evil deeds of the Jews throughout history down into his own time, especially their 'having placed Christ into the hands of Pilate,' among "many other examples." He abhorred what he saw as the crushing usury that the Jews, thinking of their own profit, callously placed upon the frail shoulders of the Christian poor. He alluded to the distasteful rites of the Jews without, however, treating his readers to the repulsive details often found in such polemics. . . . Marco Strozzi saw that the creation of a *monti di pietà* in Florence would allow the expulsion of the hated Jews. He surely knew that in many other Italian towns, his fellow Franciscans preached, in the same breath, the creation of *monti* and the expulsion not only of Jewish moneylenders but of the entire Jewish community. . . . When the Florentine authorities finally approved the establishment of a *monti di pietà*, Strozzi noted with satisfaction that the legislation called for the simultaneous expulsion of the Jews.²³

In August 1495, Fra Marco preached a series of sermons to crowds in the Piazza della Signoria on the evils which the Jews brought to city after city in the wake of their arrival as moneylenders. Moved by his words, the

Council of Eighty approved legislation on December 26, 1495 setting up Florence's first *monte* and calling for the expulsion of the Jews.²⁴

Six months later, from May 25-27, 1496, Savonarola, moved by the effect that his preaching during Lent had had on the population of Florence decided, in Brownson's words "to strike a bolder stroke and to exhibit before the Florentines as spectacle to which their eyes had never been accustomed."²⁵ On Palm Sunday, which in the year 1496 fell on March 27, Savonarola organized a procession of 5,000 boys and an indeterminate number of girls wearing a wreath of olive leaves on their head along with an olive branch in one hand and a red cross in the other. At the head of the procession, there was a tabernacle with a picture of Christ entering Jerusalem astride an ass, and as the painting passed along the streets of Florence, the crowd cried out "Viva Cristo, ch'è 'l nostro Re!" The Palleschi, as the supporters of the Medici were known, had come to murmur or to curse, but they "were so carried away by sympathy with the feelings of the rest, that they could find it in their hearts to do nothing but bless."²⁶ And dig into their purses, because the intent of the singing children dressed in white was to take up a collection for Florence's first *monti di pietà*. Brownson, following Burlimachi, calls the Palm Sunday procession of 1496 "the triumph of innocence and charity."²⁷

Williamson, who admits that the carnival was "the invention of Lorenzo,"²⁸ but never explains Lorenzo's motives for inventing it, calls the children in the Palm Sunday procession "organized. . . gangs of youths" and compares them to "skinheads," who "hoped to "destroy the Carnival and everything of wit and joy and beauty and untrammelled sexual amusement associated with it."²⁹ In portraying the carnival this way, he fails to come even close to Savonarola's sophisticated understanding of the political payoff that Lorenzo derived from it. He lacks the sophistication of Savonarola, who denounced the carnival from the pulpit as a deliberate attempt to debauch the citizens so that Lorenzo could more easily tyrannize them. "The tyrant," he said, "in times of peace and plenty is want to occupy the people with shows and festivals in order that they may think of their own pastimes and not of his designs so that, growing unused to the conduct of the commonwealth, they may have the reins of government in his hands."³⁰

As some indication of the rotten fruit which Lorenzo's carnival had brought in its wake, syphilis arrived in Florence during the summer of 1496. Tradition has it that the French army spread it throughout Italy, hence its name, "the French disease." On May 28, a Florentine commentator referred to the virulent and until then unknown venereal disease as "French Boils," noting further that by July "the city was full of it; almost all the sufferers being grown-up men and women."³¹ By December of the same year,

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the complaint of French boils had spread all through Florence and the country round and also to every city in Italy, and it lasted a long time. Anyone who tried to doctor them suffered severe pains in all his joints, and in the end they returned; so it was no use doing anything. Not many people died of this complaint, but they suffered much pain and annoyance.³²

After Savonarola and Strozzi “took up the cross in order to gain a victory over the Jews,” their fundraising appeal for the *monte* on Palm Sunday yielded some 1,400 florins in pledges, which Burlamachi claims gave “the last provocation to the wrath of the usurers and bankers.”³³

Two months later in July 1496, the directors of the *monte* rented a house owned by Francesco Nori on the piazza a Remigio in the Santa Croce neighborhood to serve as the *monte*’s headquarters. Then on August 2, 1496, the Florentine *monte* opened its doors. The *monte* was run by Piagnoni, which is to say, supporters of Savonarola (the derogatory term means “whiners” or “cry babies”), and it charged interest of 5 to 7.5 percent to people who were starting small businesses or farmers who needed to buy seed. Borrowers had to take a solemn oath not to gamble with the money or blaspheme before they could receive a loan. In accordance with the legislative intent behind the founding of the *monte*, the Jews were given one year “to make good account of the pawns to be found in their hands, and also to satisfy other debts.”³⁴ After one year, the debts owed them were to be annulled, their privileges revoked, and they were to be expelled from Florence. As if to explain why such measures were necessary, the *monte*’s constitution explained that a man who borrowed 100 florins at the rates of interest Jews customarily charged would have to pay back 49,792,556 florins, 7 grossi and 5 danari after 50 years.³⁵

Once the *monte* began its operations, it had to sail in uncharted financial waters between the demands of charity on the one hand and business practice necessary to ensure its survival on the other. In his guidelines, Strozzi insisted that the *monte* avoid usury at all costs, but it was nonetheless expected to collect fees (which some might construe as interest) to keep the operation afloat. In order to redeem his pawn, the poor man who borrowed money from the *monte* “had to pay a fee small enough not to burden the borrower but large enough to keep the *monti di pietà* in the black.”³⁶ Neither holy items nor bolts of cloth could be presented as pawns.

From its inception, the Florentine *monte* struggled with an identity crisis of its own making. Was it a charity or a business? The amount of capital which Strozzi raised from the first appeal was significant but it “hardly comprised sufficient operating capital.”³⁷ The *monte* had the moral support of the Florentine population, including the rich oligarchs, but it could not gain their financial support as long as the Jews were willing to pay significant interest on money invested in their pawnshops. As some indication of

what sort of interest the Jews were paying, the dowry fund's 12 to 13 percent per annum failed to attract capital.³⁸ If the *monte* couldn't pay competitive interest, it was destined to be starved of capital, because the Florentines, no matter how charitable they might be on Palm Sunday, still wanted usurious returns on their investments on the remaining days of the year. In Bologna, the founders of the *monte* tried to get around this problem by offering spiritual incentives, such as a plenary indulgence from the pope to all who supported the *monte*. The crucial issue was capital formation: "unless the *monte* could offer an attractive return on investments, the patriciate *en masse* was not interested."³⁹

The economic downturn didn't help matters either. Faced with a shortfall in tax revenue, the city fathers, seeking to "alleviate the needs of our republic without spending any money," decided that the Jews would after all "be tolerated" for three more years in the Florentine domain; in exchange for that policy the Jews would lend the city 9,000 florins.⁴⁰ Once the city rescinded the clause which called for the expulsion of the Jews, they exacerbated and prolonged the *monte*'s main problem, namely, capital formation because the *monte* had to continue competing for funds while barred from offering the rates of return the Jews were accustomed to paying.

Endnotes

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- 15 Williamson, p. 253.
- 16 Menning, p. 35.

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- 17 Menning, p. 41. In canto 11 of the *Inferno*, Dante recapitulates Vergil's statement "ch'usura offende/la divina bontade."
- 18 Menning, p. 41.
- 19 Menning, p. 42.
- 20 Menning, p. 45.
- 21 Menning, p. 42.
- 22 Menning, p.. 43.
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- 25 Orestes Brownson, "Savonarola: His Contest with Paganism", *Brownson Quarterly Review*, April 1851, <http://orestesbrownson.com/index.php?id=229>
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- 27 Ibid.
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- 30 Williamson, p. 259.
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Chapter Eighteen

The Bonfire of 1497

Shortly after the first *monte* opened its doors in August 1496, the tide began to turn against Savonarola. The sodomites were unhappy because “brigades of boys” whom they formerly considered a pool of “instruments for potential sexual gratification,” had “renounced the vice and actively hunted down and intimidated” their former sexual exploiters. The young men who did not convert formed gangs which then “taunted the pious Savonarolans.”¹

More serious still was the coalition of Jews and bankers who stood to lose their livelihood because of Savonarola’s and Strozzi’s economic reforms. The Jews also stood to lose their place of residence since the same legislation which authorized the creation of the *monti di pietà* also called for their expulsion from Florence. The fact that the expulsion order was rescinded in 1496, at Savonarola’s urging, did nothing to change his status as an enemy of the Jews in their eyes.² Even though they never had the numbers which his supporters enjoyed, Savonarola’s enemies were as passionate as his followers, and because they were interested in returning Florence to the *status quo ante*, they had the covert support of the Mediceans as well.

Savonarola’s most dangerous enemy, however, lived in Rome. In fact he was the bishop of Rome, Pope Alexander VI, whom Savonarola repeatedly denounced as responsible for the corruption in the Church. Roderigo Cardinal Borgia, cardinal archbishop of Valencia in Spain, had become pope four months after Lorenzo’s death on August 11, 1492. His election was tarnished by charges of simony and sexual immorality, which was not unusual in this age, but Alexander VI seems to have taken both sins to new heights. He had begotten eight children by three separate women and was rumored to have kept his young mistress even after being elected pope and well into his sixties. Whatever his actual faults, and no matter how venal and corrupt popes have been (especially during the late Middle-Ages), no one who has occupied the chair of Peter has received worse press than Alexander VI. Guicciardini claimed that the already mentioned vices “were accompanied by insincerity, avarice, cruelty, a deplorable private life and relentless determination to enrich his bastards.”³ In *The Prince*, Machiavelli wrote that “Alexander VI did nothing but deceive men, and never thought of doing otherwise. . . . No man ever gave his word more convincingly, made promises with such solemn oaths and kept them less. . . .”⁴

Tired of Savonarola’s jeremiads against him, Alexander VI ordered the monk to stop preaching in October 1495, an order which Savonarola pointedly ignored. Then during the summer of 1496, the pope tried a different tack, abandoning the stick in favor of the carrot, when he offered Savonarola the cardinal’s red hat.

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Needless to say, Savonarola, who was now urging the princes of northern Italy and the king of France to call a council to depose the pope, did not accept the pope's offer, a fact which continues to fuel hypothetical speculation of what might have happened if he had:

What would have happened, one may ask, had Girolamo Savonarola accepted the red hat? The possibilities are fascinating. Admittedly, he might have gone to Rome to put on the 'Sacred Purple' and join the College of Cardinals, only to vanish into one of the Borgia's dungeons. On the other hand, it is not entirely inconceivable that he would have succeeded Alexander as pope, elected with the French support. If so, Christendom might have avoided the Protestant Reformation.⁵

Gradually, the anti-Savonarolan coalition began to take form. It was made up of groups that only someone like Dante could have assembled after scouring the lower circles of hell: It was made up of sodomites, bankers, Jews, and the pope (both *in propria persona* and as a stand in for the corrupt clergy), and behind them all stood the Mediceans itching to get back into power. All of these people were offended in one way or another by the spectacular success of Savonarola's reforms because of which the poor could now borrow money at the unheard of interest rate of 5 percent.

Under Savonarola, Florentines were no longer taxed to subsidize the rich. Because of these reforms, "the boys of Florence no longer prostituted themselves to sodomites, mugged citizens in the streets or tried to kill each other by hurling rocks-the 'mad and bestial game of stones.'"⁶ Savonarola then threw down the gauntlet, stating the issue in terms that any Florentine could understand:

we persuade men to live simply and women to live decently. You, by contrast, lead them down the road to lust and luxury and pride, because you've ruined the world, corrupting men with lustfulness and women with indecency, while you make children turn to sodomy and filthiness and become prostitutes. . . at night you go to your concubine and next morning you go to the Sacraments. . . proud, lustful, and greedy and since those three vices contain the seeds of all the other vices he has within him the seeds of literally every vice of which a man is capable. All his senses are perverted, his eyes from watching debauchery, his ears from being flattered and listening to slander, his palate by the very worst sort of gluttony. He corrupts magistrates, robs widows and orphans, oppresses the poor and patronizes men who encourage him to swindle them.⁷

The main thing that turned the pope against Savonarola was Savonarola's letter to the French king, written during the waning days of the summer of 1496, asking him call a council and depose the pope. The circular letter was then sent to the Holy Roman emperor as well as to the kings of Spain, England and Hungary. The Church, Savonarola explained was corrupt from top to bottom, and the man responsible for the corruption was the pope, or, better, the man who claimed to be pope, because

Now I hereby testify, *in verbo Domini*, that this Alexander is no Pope, nor can

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he be considered one because—leaving aside the mortal sin of simony by which he bought the Papal Chair and sells the Church's benefices to the highest bidder every day, and ignoring his other all too obvious vices - I declare that he is not a Christian and does not believe in the existence of God, which goes beyond the bounds of infidelity....⁸

The pope could not ignore a threat this grave. The papacy had just weathered the Great Schism, when there were three claimants to the chair of Peter. The papacy had also just barely survived the conciliarist crisis, which claimed that ecumenical councils had authority which trumped that of the pope. Since the Council of Constance had made Martin V pope by deposing his two rivals, why couldn't another council just as easily depose Alexander VI, a man universally recognized as unfit for the high office he unworthily occupied?

Sensing the dark clouds gathering on the horizon, Savonarola understood that the success of his reforms depended on mustering popular support. He decided that he would have to outdo the processions of Lent 1496 with the most spectacular bonfire of the vanities the city had ever seen in 1497. Savonarola understood that carnival had such a hold on the Florentines that it could not be banned, but it could be turned upside down. The same thing was true of the songs that got sung during carnival. Savonarola understood that the Florentines had been corrupted by Lorenzo's carnival songs:

from his own personal observation, combined with historical traditions, he inferred most legitimately, that music exerted a most controlling influence over the imagination of the Florentines, and had power to increase tenfold the evil caused by the Satanic inspirations of a certain class of poets. He therefore resolved to extend his reformation to this branch of art. . . .⁹

Williamson defends Lorenzo by downplaying the obscenity of the songs he commissioned (and sometimes wrote), by claiming that they were "the simple amusements of *l'homme moyen sensuel*."¹⁰ But then he undermines his own case by quoting J. A. Symonds's claim that their lyrics "dealt in almost undisguised obscenity."¹¹

"The tone of these songs"—to quote again J. A. Symonds—"is uniformly and deliberately immoral. One might fancy them composed for some old phallic festival."¹² Rather than quote the lyrics which caused Symonds's to come to his conclusion, Williamson trots out the refrain to Lorenzo's famous "*Trionfo di Bacco e d'Arianna*," "*Di doman non c'è certezza*," to undermine the validity of Symonds' judgment, claiming that anyone who "suggests a deliberate policy of enervation," on the basis of that line is promoting a thesis, "which, in itself, is sufficiently absurd."¹³ In doing this he ignored not only the verdict of Savonarola but also that of Sismondi, who felt that sexual license was a form of political control as well when he wrote that: "Lorenzo was a bad citizen of Florence as well as a bad Italian; he degraded the character of the Florentines, destroyed their energy, ravished from them their liberty. He confirmed in Florence the status for pleasure and luxury as

a means of confirming his power."¹⁴

Rather than abolish Lorenzo's carnival celebrations, Savonarola decided to put spectacle in the service of higher ends and outdo Lorenzo by introducing one of the most spectacular events in Florentine history, the bonfire of the vanities of 1497. There had been other bonfires throughout the 15th century. Bernardino da Feltre had presided over one; as had St. Bernardine of Siena, but no one did it on a scale approaching what Savonarola did. Emboldened by his success in 1496, Savonarola organized a pre-lenten celebration which would demonstrate the final triumph of Christianity over Lorenzo's paganism.

During the days leading up to Lent, the same children who had processed singing in 1496 now went door to door:

begging, in the name of Jesus and of the Blessed Virgin, that the anathema might be given up to them, the word by which they designated all those articles of luxury or productions of the fine arts, which the preacher had condemned as profane. The produce of all these voluntary sacrifices was laid upon a pile, which had been constructed in the public square, and was thus exposed to the gaze of the citizens as spoils that they had won from the infernal powers. Upon that pile might be seen collections of licentious songs, with the musical instruments used to accompany them when sung, heaps of indecent prints and of portraits, the drapery of which was inconsistent with modesty, the tales of Boccaccio, and other works of the same character, the Morgante of Pulci, and all those other mock epics in which libertine adventurers were substituted for the heroes of the old romances of chivalry, the erotic poems of classical antiquity, and such as had been composed in imitation of them or otherwise, whether in Latin or in the vulgar tongue, and, lastly, a multitude of the costliest pictures and statues, which were tottered upon this altar of purification, either by the artists or by the owners; and although it might have seemed impossible to add any thing to the imposing pomp of the first procession, nevertheless the second produced a still greater effect upon the people, first, because it took place upon the very day of the Carnival, and thus bore witness loudly to the extraordinary control which Savonarola had gained over the most inveterate habits, and secondly, because even the arrangement of the celebration had been more skilfully contrived. A call had been made upon every branch of Christian art to increase its magnificence, and amongst other master-works particular attention was attracted to an Infant Jesus, done in marble by Bonatello, and placed upon a golden pedestal, from which he gave his blessing with one hand, while with the other he pointed to his cross with the nails and crown of thorns. After having gone through the whole city, gathering alms and singing alternately psalms, hymns, and lauds, the children raised their voices in a pious invective, composed for the purpose, against the Carnival, a monstrous image of which, emblematic of the basest propensities, had been set up on the summit of the pile, and which was presently given up as a prey to the flames, in the midst of popular acclamations that drowned the ringing of the palace-bells and the braying brass of the company of trombiste.¹⁵

The same children brought this inventory to the Piazza della Signoria where it was fastened together into a huge pile complete with brooms, kindling, straw and

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other more potent combustibles like little kegs of gunpowder where it stood awaiting the Dominican's torch. Impressed with its value a Jew from Venice offered a handsome sum to the city if he could cart it off, but his offer was refused and all of Florence's vanities were destroyed in a towering column of smoke and fire.¹⁶

Legend has it that Botticelli threw his paintings on the bonfire, but Brownson, who had already mentioned Botticelli's conversion under Savonarola's influence, does not mention Botticelli. Instead he claims that:

Fra Bartolomeo brought scrupulously all the drawings which he had made as studies of the nude figure; and his example was followed by Lorenzo da Credi and many other painters, who had come fully to comprehend the necessity of a speedy regeneration for their art. This time the alms were still more abundant; the statues of saints and the painted banners exhibited in the procession gave a higher idea of what Christian sculpture and painting might attain to; the pile was constructed on a larger scale, and surmounted by emblems of greater significance; and instead of raising shouts of joy, as fire was set to it, the whole people intoned with majestic solemnity the *Te Deum*.¹⁷

The combination of imposing spectacle and the almost daily preaching of Savonarola made him "absolute master of their minds and hearts"¹⁸ and his mastery increased with each successive year.

These imposing ceremonies, combined with the almost daily preaching of Savonarola, produced the deeper impression upon all classes of citizens. . . . The impression produced was not the enthusiasm of a day, such as might have been excited by a fanatic or a demoniac; it was an enthusiasm that had its root in the most secret depths of the soul, the explosion, as it were, of all those emotions and sentiments which this missionary-philosopher had therein stirred up and set into fermentation throughout eight whole years. He had contrived so to graduate his eloquence as never to appear retrograde, or even stationary, in the long career which he undertook to run. Hence it was, that at the outset complaints were made, very generally, of his excessive simplicity. . . but in proportion as they saw unrolling before their eyes his vast scheme of reformation, which embraced, at one view, every faculty of the human mind that had been corrupted by inveterate pagan habits, such spirits as could still endure the brightness of so strong a light began to open themselves insensibly to more Christian convictions; and it was not until after he had laboriously strengthened those convictions by all the resources which theological, philosophical, and historical science put at his disposal, that Savonarola, now become absolute master of their minds and hearts, judged it to be time to strike their imaginations with all that apparatus of half religious, half dramatic ceremonies, which were reproduced with ever-increasing pomp during three consecutive years.¹⁹

The Palleschi were filled with rage by the spectacle, but neither they nor sodomites, who saw in Savonarola's success "the daily diminution in the number of victims who had served as food for their licentious appetites,"²⁰ were Savonarola's main enemy in Florence. Nor did that distinction go to the professors of profane literature, or the bad priests and monks who were so often the recipients of Savon-

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arola's wrath. No, that distinction went to the bankers: "the most mortal enemies of Savonarola were the bankers and the moneyed men of all descriptions."²¹ In their view Savonarola had committed the unforgiveable sins when he

encouraged, with all his influence, the depositing of funds in the *monti di pietà*, which had been founded for the purpose of rescuing the poorer citizens from the ruinous exactions of usurers. From this there had resulted a momentary disturbance in financial speculations, and serious apprehensions for the reaction which this branch of business was likely to experience for the future. In another direction, inasmuch as the reform, which had extended successively to a very great number of articles of luxury, threatened to injure, and even to bring to utter ruin, all these dealers, who required a certain amount of corruption in the age to sustain their business, a formidable league was struck between these men and the bankers, the ramifications of which stretched as far as Rome, where the Borgia family, of such unhappy celebrity, were producing still greater terror by the impunity with which their crimes were committed, than by their enormity. In the view of such bold transgressors of all laws, human and divine, the sermons of Savonarola could be nothing but the seditious declamations of a sectary. Hence the bankers, the usurers, and the merchants, who multiplied their informations and calumnies against him.²²

Savonarola accused the oligarchic families of corrupting their own children, claiming that "an education which consisted in making their sons study a few profane poems, and then sending them to a banking-house to take lessons in money-changing and usury, was as prejudicial to their souls as to their understandings."²³ He expressed further horror that Florence should be subjected to something as repugnant as the rule of those who had achieved prominence through usury:

As a man of intellect, and still more as a man of God, he had conceived a horror of the government of bankers; and the idea of putting the emblems of supreme magistracy in hands that might have been defiled by unlawful gain, was to him the subversion of every social principle.²⁴

On March 24, 1497 the local clergy broke ranks when a preacher at Santo Spirito claimed that Savonarola was not a prophet and that he had been deceiving the multitudes. The attack was laughed off by the crowds who attended Savonarola's sermons, but it was a straw in the wind nonetheless. Threats were hurled back and forth against a background that was nothing if not apocalyptic. Anticipating the imminent return of the king of France, while at the same time not knowing whether he would be as lenient with the city as he was during his last visit, or expecting the plague, or trying to understand what new diseases were afoot, or what rumors of war, the population was on the verge of spiritual exhaustion. It had long since passed the threshold of physical exhaustion or more particularly exhaustion from hunger caused by crop failures caused by bad weather. As of the spring of 1497, children were dropping dead in the streets of starvation, and "many died at the hospital who had grown weak from starvation."²⁵

Against this background of spiritual and physical exhaustion and impending

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doom, Savonarola's enemies began to act. On the night of 3-4 May, 1497, several broke into Santa Maria del Fiore, the city's great cathedral. They then "smeared the pulpit with excrement, covering it with the stinking carcass of a donkey, and drove nails up under the pulpit's book rest in the hope that if Savonarola managed to preach the next morning, he would impale his hands as he struck the book rest in the midst of his fiery delivery."²⁶ The shock troops of the anti-Savonarola forces were a group of young men known as the *compagnacci*, or "companions," who hated Savonarola for outlawing their pleasures and turning Florence into what they considered a "puritan tyranny."²⁷ Their leader was not young, but rather a homosexual banker by the name of Doffo Spini.

On June 11, 1497, the palio of Santo Barnabo, a horse race was run for the first time in years in direct defiance of Savonarola's wishes. Popular opinion, expressed in comments like: "Let us cheer up the people a little; are we all to become monks?"²⁸ was turning against him. On June 18, the letter from the pope excommunicating Savonarola arrived in Florence and was proclaimed by his enemy Fra Leonardo. The excommunication declared that Savonarola had not obeyed another letter which the pope had sent on November 1496. "Growing pressure from Rome and the threat of interdicts and reprisals against Florentine banking interests, caused many Florentines. . . to waver and then abandon him."²⁹

One day later, news of the death of the Duke of Gandia, Pope Alexander's favorite illegitimate son, reached Florence. The pope was devastated and for a moment considered personal repentance and reform of the Church, but in the end, bad habits combined with fear that the King of France might depose him, got the better of him, and he resolved to prosecute his campaign against Savonarola.

The plotting continued against an increasingly apocalyptic background. On July 3, the plague broke out in Florence, and by July 16, it had spread to 30 houses causing many deaths from fever. At around the same time a priest officiating at Santa Maria Maggiore was arrested by the "Eight" for spreading the rumor that Savonarola and the Dominicans at San Marco were sodomites, and then thrown into prison, "where he was confined in a cage."³⁰ A few days later, as the plague continued to spread and many more people succumbed, there was an eclipse of the sun, and the city began to empty as those who could fled to the countryside to escape from pestilence and the other horsemen of the apocalypse who were still waiting outside the city. Of the other three, war was the most imminent, and the Florentines were continually strapped for money hiring soldiers to defend themselves against the Venetians, who were sending troops to Pisa, to deprive Florence of their access to the sea. The pope expanded the excommunication which applied to Savonarola personally to include an interdict which punished the entire city by forbidding commercial transactions with Florence and allowing their goods to be confiscated. The rich were especially alarmed because they had so much to lose. The tide was turning against Fra Girolamo.³¹

At the end of 1497 Savonarola defied the pope's orders. On February 24, 1498,

he resumed his preaching in Santa Maria del Fiore at the beginning of Lent "to show that he took no heed of the excommunication."³² Alarmed by the financial consequences of the interdict, the Signoria sent five prominent citizens to ask him not to preach for a few days, and Savonarola responded by saying that he had to confer first with He who had sent him to preach in the first place. In the meantime, Florentine merchants were hearing from their correspondents in Rome that their businesses were in imminent danger of being sacked and looted with the pope's approval.

By the end of March 1498 the tension and uncertainty had become psychologically intolerable. This is the only way to explain what happened when on March 25, a Franciscan preacher challenged Savonarola to prove by an ordeal by fire that he was not a fraud. The fact that this ridiculous challenge was not only taken seriously but accepted by Savonarola's supporters is further proof of how psychologically beleaguered everyone felt.

Savonarola was evidently suffering under the same psychological pressure. How else are we to explain his mistake of letting the enthusiasts among his followers dictate the course of events: On April 6, Savonarola went along with his supporters' crazy scheme and announced that he "was prepared to let his Frati pass through the fire for the truth that he preached."³³ Once he made the announcement, the entire congregation which included several thousand men and women and children sprang to their feet and declared their willingness to perish in the fire for Savonarola and the truth he proclaimed.³⁴

Before long carpenters were hard at work constructing a 100 foot long platform of wood with a masonry foundation on Piazza de Signori, as the Dominicans and Franciscans disputed over the particulars of the ordeal, i.e., whether the monks should be allowed to carry the Eucharist through the tunnel of flame, the sort of clothing they should be allowed to wear and other details which lent an aura of increasing lunacy to the coming event which was exploited by the scoffers. In accepting the call for a trial by fire, Savonarola's supporters played right into the hands of his enemies, the *Compagnacci*.

According to the Pseudo-Burlamacchi, the *Compagnacci* refused to let the matter drop, after a discussion at one of their banquets on the evening of the publication of Fra Domenico's *Conclusiones*. "If Savonarola goes into the fire he will certainly be burned," they decided. "But if he doesn't he is bound to lose all credibility with his followers—and then we'll have a good chance of causing a riot and capturing him during the uproar."³⁵

Eventually the day of the trial by fire arrived, and all of Florence turned out to see the outcome, so great was the psychological demand for spiritual closure to eight years of tumult and reform and uncertainty. As the Dominicans continued to quarrel with the Franciscans over the modalities of the trial, the sky grew cloudy, and it began to rain. It was as if God had decided that enough was enough and sent a torrential downpour which made any fire, much less a trial by

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fire, impossible. The following day, Palm Sunday, the day of Savonarola's greatest triumphs for the past three years, the mob, deprived of the psychological resolution they craved, turned on Savonarola and the *piagnoni* and attacked San Marco, where they were holed up. At this point the parallels between Savonarola's trial and Christ's become too uncanny to ignore. When Savonarola was arrested and escorted to the palace of the priors he was spat upon and struck, by nameless members of the mob, who then asked him, as Christ had been asked in a similar situation, "who struck you?"

Shortly before Savonarola's arrest, the Florentines had one of their frequent elections, during which all of the *piagnoni* were voted out of the councils of the Ten and the Eight and replaced by *compagnacci* and their leader Doffo Spini, who in becoming one of the Eight became one of Savonarola's judges. As was the custom in trials like this, Savonarola was tortured and broke under the torture admitting that he was a false prophet. Before he could be executed he had to be degraded by an ecclesial trial, which Alexander VI arranged by sending Francisco Remolins, Bishop of Lerida, "known in Italy as 'Romolino,'" to be judge jury and executioner.³⁶ When Romolino arrived in Florence, he announced that "we shall have a good bonfire. I've brought the verdict."³⁷ To express their gratitude for the foregone verdict, the Arrabbiati, "rabid" opponents, sent a beautiful whore to his rooms dressed as a page, and Romolino was so taken by her that he took her back to Rome with him.

Romolino pronounced formal sentence on Savonarola, something he botched when he said, "I expel you from the Church militant and the Church triumphant," causing the otherwise silent Savonarola to remark, "From the Church militant, yes, but you cannot speak for the Church triumphant."³⁸

As if to show that they were in a merciful mood, the councils which found Savonarola and his two companions guilty of heresy and schism decreed that they could be hanged first before their bodies were burnt. When the scaffold for Savonarola's execution was finally completed, many of his supporters claim that it looked like a cross and that this meant that "they are going to crucify him."³⁹ When these rumors reached the ears of the city fathers, they gave orders to saw off the top part of the vertical beam so that there would be no unfortunate theological allusions.

The hangings went badly because the drop wasn't sufficient to snap the neck of the hangman's victims. Fra Silvestro, Savonarola's assistant, dangled from the scaffold calling out the name of Jesus until he strangled to death because "the rope did not draw or run well."⁴⁰ Savonarola's death was mercifully quick by comparison, and when the three bodies were taken down and placed on what must have struck the sparse crowd attending his execution as a simulacrum of the bonfire of the vanities, the crowd began hurling small bags of gunpowder on the pyre to hasten Savonarola's reduction to ashes. "The bags," we are told, "exploded with a noise like fireworks," just as a man came forth, presumably a sodomite, and shouted,

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"Now I can burn the man who wanted to burn me!"⁴¹

When the fire died down, the authorities had his ashes scattered over the Arno to avoid anyone seeking them out as relics, but these measures didn't deter those who were willing to risk arrest to rescue some trace of the man they considered a saint before his remains got washed to the sea.

Many Florentines were so scandalized by Savonarola's death that they "fell away from their faith."⁴² But many found consolation in venerating Savonarola as a saint. Four days after his death, on May 26, several women were seen kneeling "out of veneration"⁴³ on the spot where his body had been turned to ashes. For centuries afterward, a Mass was celebrated in Florence in his honor on the day of his death.

Before Savonarola died, most of his followers abandoned him. On April 21, most of the friars at San Marco signed a letter to the pope claiming that they had been "deceived by Fra Girolamo's cunning."⁴⁴ Pico della Mirandola, having died three and a half years earlier, did not have the chance to abandon him, and probably would not have, but Ficino wrote an especially repugnant letter trying to absolve himself of any ritual impurity he might have incurred by association with Savonarola.⁴⁵

Those who sought Savonarola's death got their 30 pieces of silver. The city council which was strapped for cash got permission from a grateful Pope Alexander VI to tax Church property for three years. Rumors were full of allusions associating Savonarola with the crucified Christ. When the pope "gave permission to the Florentines to impose a tax of three decime on the priests and monks," some friends of the Frate interpreted this as follows: "This frate has been sold for 30 pieces of money like the Saviour because three times ten makes thirty."⁴⁶ The Jews got the right to grind the poor again. On May 9, the Eight voted that the Jews "might lend on interest again." Or, better, they almost got the right. The resolution "was rescinded by the great council."⁴⁷ And, of course, the sodomites got what they wanted too. All three groups profited from the general sense of demoralization which followed on the heels of Savonarola's execution.

When Savonarola's "confession" was read aloud in the Great Hall of the city council on April 19, "many in fact fell from their faith" because "he whom we had held to be a prophet confessed that he was not prophet, and had not received from God the things which he preached. . . . Everyone had been expecting some signs and desired the glory of God, the beginning of righteous life, the renovation of the Church and the conversion of unbelievers." One of his followers wrote:

I was present when this protocol was read, and I marveled, feeling utterly dumb-founded with surprise. My heart was grieved to see such an edifice fall to the ground on account of having been founded on a lie. Florence had been expecting a new Jerusalem, from which would issue just laws and splendour and an example of righteous life, and to see the renovation of the Church, the conversion of unbelievers and the consolation of the righteous, and I felt that everything was exactly contrary and I had to resign myself with the thought: *In voluntate tua domine omnia sunt posita.*⁴⁸

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The discrediting of Savonarola meant that capitalism could flourish once again in Florence. The moral impediments to the unfettered accumulation of wealth had been removed by the murder of Savonarola. The Jews could practice usury; the sodomites were free to resurrect all of Lorenzo's obscenities to corrupt the morals of the population again, making the boys once again amenable to being used as sex objects, and the population in general too besotted and distracted to care. The only flaw in the plan had to do with capitalism itself. Capitalism's unfettered accommodation of usury had destroyed the Florentine economy for what looked like the foreseeable future. And so the recession continued unabated and unaffected by Savonarola's death, and Florence and the rest of northern Italy enjoyed the cultural equivalent of the calm before the storm for the next 19 years. When what the Medici pope would term the monk's quarrel erupted in Germany in 1517, Christendom lost its police power over the economy of Europe, and almost a half a millennium later, it still hasn't gotten it back.

On June 10, a miraculous sign appeared in the wake of Savonarola's death:

On the meadow of the Servi and of the Tirantoio certain caterpillars appeared, which devoured everything, so that the sloe-bushes became white and peeled; and with in the space of four days these caterpillars turned the color of Gold. The boys caught them saying: "These are Fra Girolamo's caterpillars! And some looked like gold and some like silver. They were as follows: they had a human face, with eyes and nose, seeming to have a crown on their head and round their face a diadem (halo) as used to be made, whilst between the crown and the head was a little cross. . . It seemed miraculous that they were never seen again, and as if it must signify something, and some thought it signified that the life of the Frate had been golden, and that after him ill weeds must be rooted out; and thus the sloe, appearing to be the most useless and disagreeable, was to be consumed by the tail, that is to say, by those who came after."⁹

Some eighteen months after Savonarola's death, Sandro Botticelli got a surprise visitor to his studio at three in the morning. It was Doffo Spini, the homosexual banker who had been instrumental in orchestrating Savonarola's downfall. When Botticelli asked Spini about Savonarola's death, Spini replied, "We found no sin in him, mortal or venial." When Botticelli asked why they had condemned him, Spini responded, "The mob would have put us all in a sack, torn to pieces. The business stirred up too much hatred—we condemned them to save our own skins."⁵⁰

Endnotes

- 1 John M. Najemy, *A History of Florence 1200-1575*, (Malden, MA: Blackwell Publishing, 2006), p. 396.
- 2 Najemy, p. 397.
- 3 Desmond Seward, *The Burning Of The Vanities: Savonarola and the Borgia Pope*, (Stroud, Gloucestershire: Sutton Publishing Limited, 2006), p. 64.
- 4 Seward, p. 65.
- 5 Seward, p. 158.
- 6 Seward, p. 147.
- 7 Seward, pp. 149-50.
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- 9 Orestes Brownson, "Savonarola: His Contest with Paganism." *Brownson's Quarterly Review*, April 1851. <http://orestesbrownson.com/index.php?id=229>.
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- 26 Seward, p. 183.
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Chapter Nineteen

Epilogue

After Savonarola's death the Arrabbiati took control of Florence. "Now we can practice sodomy," is how one member of the Ten expressed his feelings about the new regime.¹ They then did their best to inflict upon themselves the regime which Lorenzo had instituted to keep them under his control. This shows why vice is always the most effective form of political control. Both those who supported and those who opposed Savonarola now agreed that vice was the universal preoccupation in "liberated" Florence. Luca Landucci, the Piagnone, wrote that "everyone was indulging in a vicious life, and at night-time one saw halberds or naked swords all over the city, and men gambling by candlelight in the Mercato Vecchio." It was all done "without shame. . . . Hell seemed open, and woe to him who should try to reprove vice."²

If Pius II were still alive, he would doubtless have seen similarities between the revelry of the Arrabbiati in Florence and the Hussite rebellion in Prague. In Prague the Hussites set bare-breasted whores on mules with imitation papal bulls attached to their skirts. As part of their rituals, they would smear excrement on crucifixes. In Florence, the *compagnacci* rammed a club up a donkey's ass and then let him loose in the cathedral where they then slashed at it with their swords and left it to die on the cathedral steps on Christmas day.³

Needless to say, no matter how cathartic the return to sodomy and usury seemed, no regime based on principles this blatantly immoral could last for long. When Doffo Spini was accused of sodomy, it was a sign that the Florentines were tiring of the fool's paradise he had inflicted on them. Gradually, the Arrabbiati were losing control of the city. By the time the French under a new king, Louis XII, returned in 1499, the tide of reaction was running at its full, and a new consensus was forming. "An alliance against the Medici was forged between Piagnoni and Arrabbiati—the latter now accepting that Fra Girolamo had been both saint and prophet."⁴ Both the Piagnoni and the Arrabbiati had come to believe that Savonarola had been right. But now he was no longer there to lead them through the perilous times that lay ahead. Things could have been worse though. The Medici were still in exile, and the laws which the Signoria had passed under Savonarola's inspiration were still on the books.

One of Savonarola's reforms which remained untouched by the Arrabbiati reaction was the *monti di pietà*. Because of the fundamental soundness of the concept behind the *monte*, it outlived its founder and the reaction that swept Florence after his death. The two crucial moments—the event which ensured the *monte's* financial survival and Savonarola's death—seemed to coincide. Both occurred during 1498. According to Menning, the turning point for the *monte* came:

when the Signoria placed the proceeds from the sale of goods seized from the Pisan rebels in the coffers of the Florentine *monte*. The 5,496 florins which came to the *monte* from the sale of the rebels goods increased its capital by 61 percent and by April 1499 the *monte* was securely in the black for the foreseeable future.⁵

The *monte* had survived its first crisis. With a sufficient infusion of capital it could go on to serve the needs of the poor at a fraction of the cost that traditional poor relief had cost. Seward, citing Lorenzo Polizzotto, calls the founding of the *monte di pietà* "the Savonaroleans' crowning achievement in social welfare."⁶ What Menning fails to point out is that the *monte* survived because it avoided usury; in particular it avoided the cumulative burden of unpayable interest that dragged the Medici as well as the Bardi and Peruzzi banks to their doom. Charity saved the *monte* from the same fate as Florence's big banks, for as Menning points out: "Extending credit at a very low interest rate to those who otherwise would have no source of credit is a form of charity."⁷ The *monte* would continue to evolve under the Medici, particularly after their restoration in 1530, but its miraculous survival was assured by its avoidance of usury, the legacy of the Franciscan Friars Savonarola and Strozzi. As Menning points out: "Given the difficulties of the 1490s, it is remarkable that the *monte* survived at all."⁸

On August 9, 1503 Pope Alexander VI came down with a fever and died nine days later. Some claimed that the pope had been poisoned, based largely on the condition of his corpse as it lay in state and the moral odium which surrounded his papacy: "Rodrigo Borgia manifested in the hideous corruption of his gross, blackened body with its swollen tongue hanging out of his mouth, as he lay in state, the evil of his damned soul."⁹ Later commentators attributed the condition of his corpse to the heat of the Italian summer, but the rumors about his moral odium refused to die. That included the rumor that the pope had sold his soul to the devil in return for the papacy. When the devil showed up in August 1503 to call in his loan, Alexander was overheard saying, "I'm coming - it's only fair, but wait just a little."¹⁰ "Guicciardini's verdict on his career was that he had 'envenomed' the entire universe."¹¹

The rehabilitation of Savonarola began shortly after Alexander VI's death under the reign of his successor, Julius II, who was one of the main patrons of the famous Piagnone, Michelangelo Buonarroti (painter of the

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ceiling of the Sistine Chapel). Julius II allowed Raphael to depict Savonarola among the doctors of the Church in the *Dispute upon the Blessed Sacrament*. With Alexander VI gone, no one, not even the chastened Arrabbiati, could “be found to deny the essential goodness and purity of his vision in those dark days for the Church.”¹² Brownson claims that

The severe and despotic character of Julius will not allow us to suppose that Raphael would have ventured to take upon himself to introduce the portrait of Savonarola into one of the halls of the Vatican, if the thought had not been suggested to him by the Pope himself, who doubtless preferred this mode of reparation, as better securing publicity at the moment and perpetuity for the future.” Just as Savonarola could inspire artists like Botticelli when he was alive, so even after his death he could be an inspiration to both Michelangelo and Raphael. His spirituality had rescued art from the decadence of the Platonic Academy, where it was put in the corrupting service of moral subversion in the interest of maintaining a corrupt regime. Botticelli’s placards of the Pazzi conspirators dangling from the windows of the Palazzo Vecchio are just one more aspect of his usefulness to Lorenzo and the degradation of his art. Neither Raphael nor Michelangelo were guilty of painting the faces of notorious local whores onto portraits of the Blessed Virgin largely because of Savonarola’s inspiration.

Again, Brownson is acute in seeing the transformation that took place in Italian art after (and perhaps because of) Savonarola’s death.¹³ For generations after his death, Catholics would argue over Savonarola’s legacy. Some critics felt that the exaltation of heathen literature and art, and the corresponding corruption of morals which it caused, demanded extreme measures of the sort Savonarola proposed. On the other hand, his enthusiastic self-identification with the prophets of the Old Testament led him into the dangerous state of mind in which “he fancied himself. . . by that fact raised above all ordinary authority established by Christ in his Church.”¹⁴ Some took this as “the effect of pride or of partial insanity.”¹⁵ Others felt that he manifested “an arrogant spirit” which showed “want of respect for the ordinary authority of the Church.”¹⁶

The conflict continues to this day. The sticking point remains Savonarola’s attitude toward the papacy. On the one hand, Savonarola was revered by the Oratorian Philip Neri, who kept a portrait of him complete with halo in his bedroom. On the other hand, Ignatius Loyola, the founder of the Society of Jesus, banned Savonarola’s books from Jesuit libraries. Since the Jesuits take a special vow of loyalty to the pope, it is not surprising that they viewed Savonarola’s attempts to depose Pope Alexander VI, no matter how morally corrupt he might have been, as self-defeating.¹⁷

On September 1, 1512, the Medici, under the leadership of Lorenzo’s son, Cardinal Giovanni de Medici, returned to Florence. Under Cardinal Giovanni’s direction, “All laws passed since 1494 were repealed. . . and the government was restored on exactly the same lines as in the times of Lo-

renzo despite the law of 1495 expressly forbidding this.¹⁸ One year later Cardinal Giovanni became Pope Leo X.

Like his father, Pope Leo X understood the value of spectacle and so he celebrated his elevation to the chair of Peter by putting on celebrations reminiscent of the sort his father used to put on during carnival, including an elaborate float depicting Giovanni's accession to the papacy as the dawning of the Golden Age. To symbolize the emergence of that age, a naked child painted gold was shown emerging from a dead man's rusted armor on the Car of the Golden Age. As some indication that the dawning Golden Age was not going to turn out as Pope Leo expected, the child, who had been paid ten florins for his performance, died shortly afterward from the toxic effects of the gold paint.¹⁹

Giovanni's first words upon hearing that he had been elected pope are reported to have been: "As God has seen fit to give us the papacy, let us enjoy it." He is also remembered for dismissing the Reformation as a quarrel among monks. When news of Luther's rebellion in 1517 reached Florence it caused rejoicing among the Piagnoni, who felt it was payback for the way Alexander VI had treated Savonarola.

The year 1517 also saw the publication of Reuchlin's book *De Arte Cabalistica*, which was dedicated to Pope Leo X. In his introduction, Reuchlin mentioned his Italienreise of 1482, and spoke in glowing terms of the role that Lorenzo, the pope's father, played in disseminating the study and practice of magic through his patronage of the Platonic Academy in Florence. "I, Capnion,"²⁰ Reuchlin begins his dedication,

want to close this circle and offer Pythagoras, revived in me and dedicated in your name to the German people. Yet without the Hebraic Cabala this undertaking would have been impossible, because the philosophy of Pythagoras had its beginning in the teachings of the Cabalists.²¹

Reuchlin's dedication was a classic instance of special pleading. It's not difficult to discern Reuchlin trying to exploit his connection with the pope's father via Pico and Ficino as a way of getting him off the hook in Germany, where he was in trouble with the Inquisition. One can only wonder what Innocent VIII, under whose aegis the *Malleus Mallificarum* had been published, would have thought of a dedication like this. Reuchlin was especially bold because the charges of heresy which had been leveled against him by the Cologne Dominicans still hadn't been resolved. Reuchlin's boldness seemed to have this resolution in mind. Reuchlin needed to press the issue before another Innocent VIII became pope. If he couldn't get a favorable resolution from a pope whose father was Lorenzo de Medici under whose patronage Pico and Ficino had promoted both Cabala and the Hermetic corpus, then chances were slim that he could get a favorable hearing from Leo's successor. Reuchlin's dedication of *De Arte Cabbalistica*

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to Pope Leo X marks the high water mark of both magic and Jewish influence in the Church, both of which came about because of the Medicis' creation of the Platonic Academy in Florence. "Jewish historians," we are told,

are almost unanimous in describing the first half of the 16th century as the happiest period in the history of the Jews in the Papal State. The appeal by the humanist Johannes Reuchlin to Bonnetto de Lattes, Leo X's doctor, requesting him to intervene in his conflict with the Dominicans, is a good illustration of the influence of certain Jews at the papal court at the time.²²

It was a golden age of sorts, but just as the gold proved toxic to the child who was paid to symbolize it in the pageant celebrating Leo's installation as pope, so the age of gold, which is to say, the era celebrating its role in Florence and other centers of emerging capitalism was equally toxic for the Church whose princes outdid themselves in promoting what Vergil called *auri sacra fames*, the detestable lust for gold.

By the time he was importuning Pope Leo X, Reuchlin had already traveled to Italy three times: in 1482, 1490, and 1498. More importantly, he had brought magic back with him across the Alps, when he helped found the Sodalitas Rhenana, with Dalberg, Johannes Trithemius, who would later become Cornelius Agrippa's teacher and the author of the most sought after text on angelic magic, the "Steganographia." Buenau referred to the Rhenish Sodality as "Academica Platonica." During his third trip to Italy during 1498, Reuchlin studied Hebrew with Rabbi Obadiah Sforno from Cesena. As he mentioned in a letter to Leonhard Weidemann, Reuchlin felt that Hebrew was the crucial link between God and man. Since Hebrew was the language in which God spoke to Adam, at least in Reuchlin's view, it was the vehicle in which God revealed his secrets to man.²³

The common denominator between alchemy and Jewish magic was, the accursed lust for gold. Gradually, as *Hofjuden* became indispensable finance ministers to German princes, the Jewish financial magic known as usury began to replace the more credulous belief in the philosopher's stone. But the change would not take place any time soon. To give just one instance of how the chimerical alchemical quest perdured, Isaac Newton spent the entire decade of the 1670s looking, not for gravity or the inverse square law, but for the philosopher's stone.

Pope Leo X died in 1521, around the same time that Reuchlin died, still waiting for a definitive judgment from the Church. But the Medici continued to rule Florence bringing with that rule the inevitable decline which followed from the bad habits which the family had formed as bankers.

In 1527, the Holy Roman Emperor, Charles V gave his largely Lutheran troops permission to sack Rome. It was an assault which humiliated Pope Clement VII, who was forced to take refuge in Castel Sant'Angelo, and that humiliation not only caused much rejoicing among the Piagnoni of Flor-

ence, it also set off an anti-Medicean uprising there, which led to the installation of another republican government.

Once again Savonarola had been vindicated, and “all broke into wild rejoicing and the conviction swiftly revived, multiplied by a thousandfold, that Fra Girolamo really had been a saint and a prophet.”²⁴ On May 17, the Medici left the city peacefully and a new republican government was formed.

After the sack of Rome and the expulsion of the Medici, Savonarola’s rehabilitation—in Florence, if not among the Jesuits—was complete. In 1530 the city fathers adopted a resolution which claimed that “everything done by Florence against the Frate had been done against God.”²⁵ Brownson claims that “in the course of the sixteenth century, men were not satisfied with believing him to be innocent, they also believed him to be a saint.”²⁶ St. Philip Neri was convinced that Savonarola’s beatification was inevitable if not imminent, and Rome did nothing to discourage this sentiment. In fact,

the authorities at Rome carried their indulgence of the popular opinion so far, as to allow medals and portraits in bronze, bearing inscriptions in which the Blessed Fra Girolamo Savonarola was styled Doctor and Martyr, to be exposed for sale, and to circulate without restraint amongst pious families.²⁷

But before long, Florence ran afoul of Rome, and the cause of Savonarola’s canonization suffered accordingly. Florence came under siege in October 1529 and soon found itself abandoned by its allies, unable to engage in commerce, and as a result in desperate need of money for provisions.²⁸ In a situation like this, the *monte*, which was thriving because of its sound theoretical basis, proved to be an irresistible temptation.

In order to sustain themselves during the siege, the city fathers looted the *monti di pietà*. The looting did nothing to save Florence. Starved into submission, Florence finally capitulated on August 12, 1530, and the Medici returned once again, escorted by the armies of their cousin Pope Clement. Savonarola’s republic had died once again and this time it would remain dead for the next two centuries, as, once again under Medici rule, Florence became first a duchy and then a grand duchy as part of the Habsburg empire.

Once again the *monte* which Savonarola and Strozzi had founded was in trouble, having just lost 16,400 florins of its capital, a debt that would never be repaid because “Florentines had stopped giving alms to the *monte de pieta* in significant amounts by the middle of the second decade of the 16th century.”²⁹ Now it needed to attract new capital but this time without the sermons of Frati like Savonarola and Strozzi to inspire contributions.

And, yet, once again it survived, largely because of the soundness of its founding principles.³⁰ Faced with the deficit which the republic’s with-

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drawal created, Alessandro raised the cost of borrowing money. In June 1533, the Senate under his direction "passed a law allowing the *monte* to accept deposits on which it would pay interest of 5 percent"³¹ a move which allowed it to pay higher interest and accumulate over 60,000 lire of capital over the next five years, something Menning takes as "proof that its small loan business was booming despite the greater cost of taking a loan."³²

Unmoved by Savonarola's support of the Florentine *monte*, the Dominicans, under the influence of Cajetan, the successor of Aquinas, continued to complain that the interest taken in and paid out by the *monte* was in reality a form of usury, but the Fifth Lateran council, later followed by Leo X's bull *Inter Multiplices* condoned the practice of charging fees on loans against pawns, an approval which later found its way into Church law.³³

The Church's approval solved the *monte's* problem in attracting capital. Deposits began pouring in, and the *monte's* administrators having learned the dangers associated with usury began to avoid other pitfalls as well when they instituted the Florentine version of the Glass-Steagall Act, which stated that "unlike banks, the *monte* did not invest deposits in ventures, because their failure could send it into bankruptcy."³⁴ The security arising from safeguards like this increased both the confidence and number of depositors. By November 1545, the *monte* had 133 creditors, the highest number in its history.³⁵

Because it had eliminated the usury burden and because it had learned from the mistakes of past banks, the *monte* could have gone on making money and serving the needs of the poor indefinitely, but whenever it started to turn a profit or whenever a crisis arose, like the siege of 1529-30, it attracted the attention of princes, who saw it as their own private bank and a way of guaranteeing cheap loans to their supporters.

Hence, it comes as no surprise that, after its rebirth in the 1530s and its successes in the 1540s, the *monte* attracted the attention of Duke Cosimo I de Medici (1519-1574), who used it as an instrument of ducal finance and patronage. Unlike Lorenzo, who looted the *monte delle doti* and the state treasury as if there were no tomorrow, Duke Cosimo I was careful not to kill the goose that laid the golden egg. "His talent lay in the systematic, rational and controlled exploitation of the Monte's resources."³⁶ That meant low interest loans to those who found favor with him, but it also meant paying back the money he borrowed.

Over the last two decades Duke Cosimo I's reign, the Medici began to take greater interest in and control over the *monte*, which was thriving because it had established its reputation as a mature institution where money could be deposited safely in anticipation of a secure return. By 1563 the *monte* had 330 creditors earning interest from its accounts.³⁷

On December 30, 1547, Duke Cosimo I ordered the *monte* to lend him

7,500 ducats; his justification (if he needed one) was the forced loan of 16,000 the republic had taken from *monte* coffers during the siege of 1529-30. Once the precedent had been established, Duke Cosimo I exploited it not only for his own benefit but also for that of his friends. Considering that the standard rate among Jewish moneylenders was still around 40 percent, the 5 percent the *monte* charged on even large loans was too good a deal to pass up. And so neither Cosimo nor his supporters passed it up. In 1568 Cosimo borrowed the even larger sum of 50,000 scudi, but by then Cosimo's use of the *monte* as "an instrument of political power" was starting to wreak financial havoc to the point where the *monte* was losing 600 ducats a year.³⁸ The *monte* ran the risk of being depleted by the wealthy associates of Duke Cosimo who saw the *monte* as an attractive, if not irresistible, alternative to the Jews.

The short-term solution was to peg the interest rate to the size of the loan. The poor could still borrow (up to 100 scudi) at 5 percent. Those who borrowed in excess of 100 scudi had to pay 6 percent. The differential in interest rates did the trick, at least for the time being. During the three years following Duke Cosimo's reform the *monte* took in 21,000 florins in interest. The sliding scale of interest was refined further when 6 percent loans were reserved for loans of 40 to 300 florins, and those who borrowed over 300 were charged 7 1/3 percent, and the changes were then enacted into law in March 1574 shortly before Duke Cosimo died.

When Duke Cosimo made his first visit to Siena in October 1559 after spending four years trying to conquer that city, he informed the Sienese that he had "resolved to create in that city a *monti di pietà* that will lend money against pawns for the populace, to avoid the poor having to be consumed by the inordinate usury of the Jews who are lending today, and for the convenience of the citizens as well, who can be supported in times of need."³⁹ It didn't take a genius to see that Duke Cosimo was planning to exploit Sienese finances as much as he had exploited the same situation in Florence, but the founding of the *monte* had far-reaching benefits nonetheless. Once it started making loans to cattle breeders in the Maremma, it began to serve "as a pawnshop, an agricrodit institution, and a reinvestment company interested in mortgages."⁴⁰ The Sienese *monte* grew as both a charity and a business: "It plowed half its profits back into business but remained true to its charitable mission by giving the rest to charity and public works."⁴¹

In addition to fulfilling the purpose for which they were created, the combination of the Sienese and Florentine *monti* allowed Duke Cosimo to see beyond the parameters of the city-state and view "Tuscany as an economic entity whose institutions could be supportive not only of each other, but of his own interests and of the Tuscan economy and population."⁴² It

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was a first halting step toward the development of a national economy, a process which would take another three centuries in Italy and Germany, but one which was happening more rapidly in England and France. Italy was handicapped by bad geography in a way that England was not, and no amount of financial genius could overcome a mountainous terrain which naturally lent itself to isolated, self-contained city-states. Florence and the other Italian city-states would soon learn that no city-state economy, no matter how advanced, was a match for any national economy, no matter how primitive.

A city-state like Florence could never overcome its disadvantages *vis à vis* nations like England or France, but the main reason for Florence's decline remained the Florentine contempt for labor and their inability to see the worker's wage as anything more than an expense that could be cut with impunity whenever times got tough. The failure to understand the real role which wages played in the economy coupled with the usury burden which was the ongoing legacy of Medici rule were the two main causes of the decline which set in at the end of the 15th century, from which Florence never recovered:

The officers of Por Santa Maria, the master wool-weavers' guild, received permission from the *Magistrato Supremo* in September 1539 to "recall and bring back" into the city a number of master weavers whose flight from Florence "because of debt" was largely responsible, in the eyes of the Magistrato, for the hard times in the cloth industry. The same magistracy became alarmed at the departure of debt-ridden *contadini* from the land and deplored the resulting waste of arable land and the effect on the Florentine food supply. The peasants had fallen into "calamity and misery" because of the "universal sterility and penury of the present year 1540," and so the *Magistrato* went to the unusual length of declaring an 8-month moratorium on the private debts of *contadini* in an effort to entice those who had left to return, and to persuade those who were wavering to remain on their lands. Any creditor who pestered them for repayment would be subject to a fine of one hundred lire.⁴³

The founding of the Florentine *monte* addressed the issue of usury, especially among the poor, but it did nothing to address the chronic condition of low wages, which is what caused the poor to borrow in the first place. Because of chronically low wages, the economy continued to contract, increasing the ranks of the poor and the necessity of poor relief from "the misery and poverty which today are found in the city."⁴⁴ Unheard of numbers are poor, the Magistrato observed. Since they could no longer provide themselves with life's necessities, they had no recourse but begging.

Faced with what seemed like insurmountable economic and social problems, many if not most of the Florentine oligarchs became courtiers since the city was now no longer a republic but rather part of the Habsburg empire. Like the English in the 19th century, "many Florentine aristocrats.

.. withdrew from commerce and industry in favor of investments in land and turned their talents toward winning posts in the ducal household or the bureaucracy."⁴⁵

This change in attitude did nothing to improve investment opportunities; in fact the oligarch's gradual withdrawal from commerce exacerbated the decline in the wool industry. Over the course of the 16th century, the number of wool workshops dropped from 84 to 46 by the early 17th century. Since wool and silk cloth manufacturing (and the commerce that went along with it) were the only real investment opportunities in Florence, withdrawal from commerce meant general impoverishment as well as an ever-widening gap between the splendor of the courtiers' world and the misery of everyone else. The same lack of concern about the common good exacerbated the difficulties under which the *monte* had to function:

The grand duke and his friends continued to divert money from the *monti di pietà* for their own political, social, and economic needs just at the time when that institution's liquidity might have been put to use to help the very group for which it had been created—the poor.⁴⁶

Those who had money could have the best of both worlds. They could lend at usurious rates to princes, and they could borrow at the poor man's rate from the *monte*. Unfortunately, some things never changed, and the behavior of princes and their proclivity to default on their loans remained what it had been since time immemorial, something the oligarchs discovered to their chagrin in 1583 when the Spanish crown defaulted on a loan of 300,000 ducats which they had borrowed from the *monte* at a rate of 7.5 percent.⁴⁷ The *monte* never recovered its principal and so was faced with yet another liquidity crisis of its own making (or that of its corrupt governors).

Unable to resist the easy money which the *monte* offered them, the Medicis began by borrowing from the *monte*, and eventually merging it with the funded public debt, which never got paid off and stood at about 14 million scudi when the Medici line finally died out in 1737. By 1781, it was impossible to distinguish the *monte* from the sovereign debt it was used to support, and so after creating a commission to try to revive the *monte's* charitable work, the Habsburgs concluded that this was impossible and permanently united the *monte* and the public debt in 1782, at which point the *monte* which Savonarola and Strozzi had created almost three centuries before went out of existence. By that point the Fugger family of Augsburg had replaced the Medici as papal bankers, and economic development had reached a new stage of development in which city-states like Florence would no longer play a significant role.

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Endnotes

- 1 Desmond Seward, *The Burning Of The Vanities: Savonarola and the Borgia Pope* (Stroud, Gloucestershire: Sutton Publishing Limited, 2006), p. 269.
- 2 Ibid.
- 3 Seward, p. 270.
- 4 Seward, p. 271.
- 5 Carol Bresnahan Menning, *Charity and State in Late Renaissance Italy: The Monte di pietà of Florence* (Ithaca and London: Cornell University Press, 1993), p. 89.
- 6 Seward, p. 124.
- 7 Menning, p. 87.
- 8 Menning, pp. 88-9.
- 9 Michael de la Bedoyere, *The Meddlesome Friar and the Wayward Pope* (Garden City, New York: Hanover House, 1958), p. 251.
- 10 Seward, p. 272.
- 11 Ibid.
- 12 Bedoyere, p. 251.
- 13 Orestes Brownson, "Savonarola: His Contest with Paganism," *Brownson's Quarterly Review*, April 1851, <http://orestesbrownson.com/index.php?id=229>.
- 14 Ibid.
- 15 Ibid.
- 16 Ibid.
- 17 Seward, p. 279.
- 18 Hugh Ross Williamson, *Lorenzo the Magnificent*, (London: Michael Joseph, 1974), p. 274.
- 19 Williamson, p. 276.
- 20 Charles Zika, *Reuchlin und die Okkulte Tradition der Renaissance* (Sigmaringen: Jan Thorbecke Verlag, 1998), p. 64. My translation throughout. Capnion is the Greek translation of "little smoke," the meaning of Reuchlin, the diminutive of Rauch, in German.
- 21 Zika, p. 65. Capnion ego germanis per me renascentem Pythagoram tuo nomini dicatum exhibebo. Id tamen absque hebraeorum Cabala fieri not potuit, eo quod Pythagoree philosophia de Cabalaeorum praeceptis initia duxit.
- 22 Zika, p. 175.
- 23 Zika, p. 71.
- 24 Seward, p. 275.
- 25 Seward, p. 276.
- 26 Brownson, op. cit.
- 27 Ibid.
- 28 Menning, p. 113.
- 29 Menning, p. 111.
- 30 In mentioning "sound principles," I am referring to the original intention of

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the *monte* as a pawnshop for the poor and not its subsequent transformation into a state bank after the Medici returned to power, although charging five percent interest on a loan, as opposed to $43 \frac{1}{3}$ would also constitute sound banking principles in the current sense of the term. As Anthony Santelli pointed out in the Letters column of the October 2013 issue of *Culture Wars* magazine (Vol. 32, No.10):

Buying an item for X and selling it for X + Y is not usury. It is possible that paying only $\frac{2}{3}$ of the market price for a pawned item, as the *montes* did, violates the Just Price. I made an argument in my article that that isn't necessarily the case, or at least isn't always the case. But, even if it is the case, charging an unjust price isn't the same as usury. (I grant in my article that an unjust price and usury have been conflated in the discussion of usury, but it is important to draw a distinction between them because it improves one's understanding of the issues: true usury is not the same as an unjust price.) Paying less than a Just Price for an item is sinful, but strictly speaking it is not usury: there is no interest being charged on a loan.

- 31 Menning, p. 140.
- 32 Menning, p. 139.
- 33 Menning, p. 104.
- 34 Menning, p. 143.
- 35 Menning, p. 149.
- 36 Menning, p. 2.
- 37 Menning, p. 161.
- 38 Menning p. 198.
- 39 Menning, p. 235.
- 40 Menning, p. 241.
- 41 Menning, p. 240.
- 42 Menning, p. 242.
- 43 Menning, p. 140.
- 44 Menning, p. 142.
- 45 Menning, p. 262.
- 46 Menning, p. 263.
- 47 Menning, P. 264.

Chapter Twenty

The Rise of the Fuggers

In 1367 a young weaver with the unfortunate name (in both English and Latin) of Fucker moved from his place of birth in the township of Graben on Lechfeld into the Imperial city of Augsburg. Hans Fugger, as he was known in German, along with his brother Ulin “had learned domestic weaving and dyeing in the house establishment of their father, which probably produced cloth on a per piece basis for the state run firm.”¹ The cloth in question was fustian (*Barchent* in German) a cheap cloth made from a combination of cotton, flax, and wool.

Thanks to the modest amount of start-up capital he brought with him from Graben and an economically opportune second marriage, Hans Fugger was able to get into the textile market just as the fustian boom was taking off. Before long, he had risen to the rank of merchant. In addition to producing his own cloth, he began to import cotton and sell the fustian of other less enterprising craftsmen. Soon he began dealing with other wares that figured in the German-Italian trade.

Hans Fugger was not alone in moving from peasant to weaver to merchant. Most of the new wealth which arose in Augsburg over the course of the 15th century came from “trade in connection with the rising Augsburg manufacture, especially that of fustian weaving.”² As Haeberlein puts it:

The textile industry and above all the production of fustian was the motor which drove the Augsburg economy. Historical studies have shown that the introduction of fustian production was “one of the most basic innovations of the second half of the 14th century.” Merchants in the Swabian imperial cities of Noerdlingen, Ulm, Ravensburg, Memmingen, Biberach, Konstanz and Kaufbeuren, used their business connections with Venice to import cotton and organized the sale of raw materials, extending credit and the marketing of the end product regional textile production. In the late Middle Ages, the region between Lake Constance and the Danube and Lech rivers was one of the great European industrial regions. During the course of the 15th century, Augsburg and Ulm emerged out of the multiplicity of these cities as centers of textile production and foreign trade. . . . The big breakthrough in terms of fustian production came in the 1370s. Judging from tax documents, production rose from 12,000 pieces of cloth in 1385 to over 85,000 pieces in 1410.³

Like Florence, Augsburg began its rise as a banking town by getting involved in cloth production. As in Florence, the wealth which the textile industry created soon became concentrated into the hands of a few fami-

lies. By 1492, 22 people in Augsburg had amassed 30 percent of the city's GDP. Augsburg had become a commercial oligarchy like Florence.

As in Florence, there was a close connection between political influence and economic power in the imperial city of Augsburg during the 15th century. From 1396 until 1516, 94 percent of the occupants of the most important political offices in the city came from the richest three percent of Augsburg's taxpayers. The merchant upper class had an almost uncontested lock on the most important offices. One important reason for their dominance was the fact that office holders got reimbursed for expenses but did not receive any pay. As a result, they had to be able to afford the expenses that went with political offices and this meant making sure that their businesses profited from their political connections.

This arrangement cut both ways. Financial success put the Fugger family in the running for political office, but when Lucas Fugger went bankrupt, it effectively destroyed his chances of ever becoming mayor. It was possible to become part of the ruling class by birth or by marriage to someone in one of the elite families. These families all belonged to a drinking club which was the social center of the economic and political upper-class. This club also served as an economic communications center for the wealthy, and it was into this club that Lucas Fugger was granted admission through his marriage to Klara Konzelmann in 1488.⁴

Shortly thereafter Augsburg succeeded Florence as the financial capital of Europe. Whenever money was needed in late 15th and early 16th century Europe, loans were sought in Augsburg, and the source seemed inexhaustible. Martin Luther claimed that "Augsburg could produce 30 tons of gold in three weeks, which was more than the Kaiser could do."⁵

This concentration of wealth led the leading Augsburg merchant families into banking, and banking led to usury, and involvement in usury led to the development of what Max Weber would call the spirit of capitalism. "The capitalist spirit spread quickly throughout the 15th and 16th centuries. It was a spirit by which a broad spectrum of the upper classes of the German people pursued financial gain with a spirit that was logical, relentless, uninhibited and unwilling to rest on its laurels."⁶

As in Florence, the same concentration of wealth and power in the hands of a few oligarchs led to revolution. The same worker unrest which rocked Florence in 1378 affected Augsburg ten years earlier. In Augsburg as in Florence, the worker revolt led to a local government dominated by the guilds.⁷ At this point the histories of the two cities began to diverge. The rule of the guilds in Florence was a brief historical interlude followed by the reign of the oligarch families in general, and the Medici in particular, until the republican revolution which followed the invasion of the king of France at the close of the 15th century when the Medici were expelled.

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The story of Augsburg was different because the guilds had deeper roots in the Germanic countries that made up the Holy Roman Empire than they did in the thin and mountainous soil of Italy. The connection between the guilds and the economic history of the Holy Roman Empire was in many ways so close that they make up two sides of the same coin.

The guilds were associations of workers by trade at a time when the boundaries between worker, proprietor and merchant were still relatively fluid. In the nebulous boundary between late antiquity and the dark ages which succeeded the fall of the Roman Empire, groups or "guilds" of the various craftsmen practiced their trades in the common rooms of the feudal lords' castles.

In 812 Charlemagne tried to codify this arrangement in his book *Capitulaire de villis*, which became the model for arranging occupations on the large estates left over from Roman times.⁸ In each royal estate, provision was made for "blacksmiths, gold and silver workers, shoemakers, turners, wagon-makers and carpenters, emblazoners, soap-makers, brewers, bakers and lace-makers," as well as for carrying out "womanly tasks" like "spinning, sewing, knitting, washing and also the weaving of linen, the processing of wool into cloth and other materials and the finishing of all kinds of clothing articles."⁹

After the fall of the Roman Empire, Europe possessed no security force large enough or strong enough to protect agriculture from the predations of barbarian tribes who saw looting as a way of life. In order to survive in a political climate like this, the Germans who had followed the lead of the Benedictines and had settled into a life of cultivating the soil had to bind themselves to the local lord or bishop, who possessed a fortified castle and troops, for protection. That meant that the German peasantry had to

sacrifice its landownership and, with it, its liberty. . . . For the sake of protection, the one-time free man gave himself up to dependence on the great; and village by village he was obligated to pay interest and to provide service to them, so that they would provide military defense for him and protect him from the hungry officials of a dying kingdom and against the countless freebooters who moved in from all sides. Now the best thing would have been a tight alliance of free peasants for common defense; however people by and large did not think in those terms then; and where it was thought of, it could not be accomplished. Thus, people subjected themselves to the lords, giving up the best kind of protection, one's own defense, so that they fell into a condition of dependence for centuries. In this way, the ancient free and democratic structure of the German tribes. . . turned into an era of aristocratic oligarchy. The nobility ruled over the masses of former colleagues of the same class as though they were helots, with itself as the dominant minority.¹⁰

In order to survive, the peasants had to give up their property and their freedom. In return they got "powerful protectors in the monasteries, in the

bishops or noble landowners, who alone could provide the military force with a band of men that was obligated for that purpose but who would leave the peasant free to plant his acreage.¹¹

By the middle of the 10th century, after centuries of painful conflict, the free peasant classes had gone under, replaced by a people who were personally dependent and who, after losing their ability to defend themselves, declined into serfdom so that they had to cultivate land that was once theirs, but now the possession of the more powerful families of the higher and lower nobility or of the Church.

The story didn't end there though. Circumstances combined to gradually improve the condition of the German peasant class again from the 10th to the 15th century. To avert "flight from the land," the noble landlords were forced to treat their subject peasants better; and since force of arms and royal interdicts did not help, they eased the dues and provided them with more freedom.¹²

Labor could not defend itself against the looters, and so it had to trade freedom for the security which lords and bishops and their castles and troops could offer. In an unredeemed world, this would have meant a return to the slave economy of antiquity, but the Christian Gospel, in elevating the status of man, elevated the status of work as well. The Church was a benevolent landlord. Peasants got more benevolent treatment from the Church than from the lords:

Gifts to the Church became especially frequent at the time; on the one hand, because the peasant generally got more benevolent treatment while having to give less in payments; and on the other hand, because Church property provided greater security by the ecclesiastical ban than the property of the nobility.

The lot of the serf improved because the Church "acted with the full weight of its power and its reputation for providing for the poor, for easing the burdens on peasants and for humane treatment of the serf."¹³ As a result, "many propertyless persons acquired temporary possession, and thus work and sustenance." The same Church which offered security in exchange for indentured servitude also worked for the abolition of slavery. In preaching the equality of all persons as created in the image of God, and the equality of redemption by the Son of God, and in the supernatural destiny of all people, the Church prepared the ground for overturning pagan slavery. "What was not accomplished fully in Rome, the Church already accomplished in the first Christian-Germanic world monarchy. During the Carolingian era, actual slavery was overcome in principal and in practice."¹⁴ The gospel also began a process which would reconcile the difference among classes into a higher religious unity.

Neither ancient Greece nor Rome possessed this higher unity. Slavery was such an integral part of the classical world that destroying slavery

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would have meant destroying the extant social structure of both Greece and Rome. That is, of course, precisely what happened. Christianity eventually took over the Roman Empire, but it could not save the Roman Empire from its vices, which were too deep-seated to eradicate without destroying the social order in the process. Economic exchange underwent a near-death experience in the feudal era, when the local estate was an autonomous economic unit, and the European economy "was isolated in local seclusion."¹⁵

During the Middle Ages, in spite of the universal claims advanced by Papacy and Empire, most people passed their lives in the local seclusion of villages and manors, castles and townships. Never did these small communities reach the total isolation and perfect self sufficiency, of "closed" or "natural economy," which some historians have attributed to them, but certainly their economic life was extremely circumscribed and their traffic with the outside world both difficult and infrequent.¹⁶

The abolition of slavery naturally raised the estimation of human labor in the eyes of the general population. Eventually the serf-craftsman gained greater freedom, and when that happened the common work houses began to disappear. In their place we find masters who eventually worked along with journeymen and apprentices in their own houses, even if they still ranked as serfs of the manor lords. The men who worked in the same trade could now regard themselves as a company, and the trade as a fief and function assigned to their group by the feudal lords, but with the obligation to serve associated with it as a common obligation.

In the Holy Roman Empire, Christianity took root in the social fabric and gave birth to an economic system which was essentially Christian and essentially different than the slave economies of antiquity, and the prime expression of the Germanic-Christian valuation of labor which came into being there was the guild.

The main area of commerce which drove the development of the European economy out of the state of near collapse was the cloth trade: "the most prosperous and numerous craftsmen were the wool weavers."¹⁷ The rise of the guilds, and the rise of the economy from barter and subsistence to the sophisticated economies of the high Middle Ages, were one and the same thing. Economic development grew out of the development of the cloth industry, and the development of the cloth industry was inseparable from the guilds of wool weavers.

Following in the weavers' footsteps, the barrel-makers who were necessary to the wine trade on the Rhein, formed their own guilds later. The rise of an industry and the formation of a guild were, in effect, one and the same process. On the Rhein, where the wine trade had an early beginning, "the establishment of craft guilds was closely connected with those conditions; the earlier a craft arose, the earlier its members formed an association. . . . The rise of the guilds. . . was never accomplished anywhere on the basis of an executive decree or out of political

and economic considerations. . . the number of guilds rises and often appears only quite late along with the growth and prosperity of the city."⁸

Viewing the rise of the guilds from a metaphysical rather than historical point of view, they arose from the Germanic-Christian rehabilitation of human labor which arose from Christianization of the marauding Germanic tribes when the Benedictine monks, who established monasteries up and down the Danube and Rhein valleys, persuaded them to give up looting in favor of cultivation of the soil.

Because Christianity preached the equality of all believers in the eyes of God, Europe did not split into two mutually exclusive classes, with helots doing all the work and the ruling class ruined by idle leisure, as both Greece and Rome had. Work had been redeemed because of Christianity, and since there was no longer any stigma attached to it, the social order that grew out of the Christianization of the Germanic tribes became industrious in a way that antiquity would have found unprecedented.

The guild was bound up with a concept of work that was peculiarly Christian. The idea of work which the Germans learned from the Benedictine monks was at odds with the pagan conception of work. For pagan antiquity, work was a disgrace and a curse which inflicted its burden only on the poor. The Greek word "to work," came from the same root as the word "poor" and it meant "to suffer poverty."¹⁹ The noble citizen was to occupy himself only with the "liberal arts," and with visiting the national assembly and the theater. Aristotle wrote that, "those who work with their hands do not rate the title 'citizen,' they have no nobility in their minds. . . . there is no difference between them and slaves. . . but the slaves are a special breed of people and intended for the purpose of doing physical labor."²⁰

Small wonder if Rome and Italy became the habitation of an idle rabble, so that finally as Livy said, they could no longer cope with their vices or come up with the cures for them. As the light of the Christian faith dawned over the nations, this notion of work changed completely. "Pray and work" was heard throughout the Christian world: work became an honor and idleness a disgrace, a sin and the root of all evil.²¹ During antiquity,

Commerce went into quick ascendancy at a very early time, and the population soon split into the social classes of the rich and the poor; human energy, like horsepower, soon took on the economic and legal character of mere capital. All work which did not have a predominantly intellectual character was looked on with disdain and as unworthy of a man's respect. It was done by slaves and burdened with the stigma of bondage²². . . The German Middle Ages, on the other hand, brought to work its proper status. . . . Work. . . made all classes citizens with equal rights. The character of the soil and of the climate already required at the time of exclusive land cultivation an intensive development of people's working capacity, and a greater application of human activity than in the countries of southern Europe; and thereby it is not without impact on the fact that the Ger-

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man law of immobile goods was so much richer than the Roman one.²³

This brings us to the true heart of economic life, an understanding which was denied to the classical world because of its reliance on slavery and its involvement in usury. All wealth derives from human labor. Man was called by God to create enhanced value out of God's creation through the application of human behavior. Only an economic system which recognizes the centrality of human labor can bring about prosperity. The antithesis of the economy which recognizes wealth as a function of labor is the economy based on usury. It required many warnings, and even more so, good example—above all on the part of the Benedictines to whom Germany owes its culture—before the northern barbarians understood the relationship between work and value. However, it finally happened. Pesch mentions the Fuggers and their humble origins as weavers in Augsburg as an example of the newfound dignity which human labor had achieved in the Holy Roman Empire. In the Christian economy even weavers could be elevated to the ranks of the nobility, as the Fuggers were by Charles V.²⁴

Exploitation of the work of others was rendered impossible by public opinion and guild regulations. The guild knew only workers. The master was no less active in the workshop than the journeyman and apprentices. With its teaching that any honest work is an honor for people, Christianity accomplished as important a social revolution as it had by the elimination of slavery. Indeed, one of the great accomplishments of Christianity in Europe was a reversal of the pagan idea of work as something that only slaves did:

In Rome we find after the Punic Wars as during the Carolingian era, the emergence of latifundia formation. However, the Roman farmer lost his land ownership completely in this process, as that is now swallowed up in the latifundium and is cultivated by foreign slaves. The German peasant on the other hand remains on his ancient native soil. He suffers a loss of his personal independence, but in return he gains the protection of a powerful lord. On the other hand, the security of his economic sustenance remunerates him for the sacrifice of the full freedom of property on his native plot. If the serf or the tenant was dependent on the landlord, then the latter in return had the obligation to see to the maintenance of the serfs and tenants.²⁵

The advent of the Christian era involved the end of pagan economics and the end of a society based on free market principles, including contempt for labor and support of usury. Rome was a slave economy. Feudal Europe was different. The economy of feudal Europe was based on promoting and rewarding labor. The Christian-Germanic era meant preferring work over usury as the basis for the economy.

The rise of the guild was bound up with the rise of the city. The cities established during the Roman period were destroyed by the conquering

Germans. Over the course of centuries, they were succeeded by "the ancient cities along the Rhine and the Danube which already stem from pre-Roman times, from the Celts."²⁶ All of these cities were fortified to provide protection against external enemies and were usually under the direct rule of a bishop. Hence, "In the country, liberty perished; and in the cities it emerged anew, and from there it spread once again to the countryside."²⁷

Once the Germanic-Christian valuation of human labor pervaded actual communities of significant numbers of people living in close proximity it gave rise to the guild system. By the Middle Ages, the whole population, including scholars, was divided into guilds.²⁸ This was a social achievement unparalleled in the ancient world which moved from barter to free market capitalism with nothing in between that allowed for intermediary organizations which preserved the dignity of labor.

The guild system and the slave system are antithetical organizations of labor. Serfdom is an intermediary stage, but one which leads almost inevitably toward the abolition of slavery and a proper valuation of labor. The serf is bound to a particular lord, who owns a particular piece of land. The serf was never seen as a piece of movable property in the way that slaves were in antiquity. The serf could not be killed at the whim of his master. In fact, "the Church. . . punished those who killed a serf, like any other murderer."²⁹

The change in the valuation of labor led to a change in the valuation of property. By the end of the Middle Ages, ownership of land and the soil. . . was for the most part no longer in the hands of the landlords, but in the hands of those to whom it was assigned, and that the lord himself retained only a right to service and dues. The properties of those tied to the land were. . . as good as possessions of free, independent peasants.³⁰

Nothing expresses the chasm separating the capitalist economy of antiquity (and the Italian city-states) and the Germanic-Christian tradition of the Holy Roman Empire, better than the attitude toward debt and land. Under the Germanic-Christian system, the landowner was prohibited from mortgaging his property. The closest heir had the right to intervene to keep the property which he hoped to inherit unencumbered by debt. The right was codified in the phrase, "Wer lande wil sellen, der schall lude bellen,"³¹ i.e. he who wants to sell land, he should notify the members of the family, so that they can, if they wish, exercise their redemption right.

German law had a sense of property rights which differed from the conception of property in the ancient world which preceded it and in the Anglo-speaking modern world which succeeded it. Germany lacked the England's yeoman class, and as a result

in German law. . . the land and the soil comprise the common fund or the sustenance of the whole national community, so that a free-enterprise kind of in-

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dividual ownership was in fact unacceptable, and on the other hand, there was also the Christian principle that the natural goods of this earth are destined by God to provide for the needs of all, and not for satisfying the fantasies of, or for merely enriching certain individuals.³²

German law... authorizes neither of the two [individual or community] to operate in its self-interest in economic life absolutely and without restriction. Instead we find everywhere common rights and individual rights being conditioned and limited by each other. Therefore the German land owner could not do as he pleased with what was his. He by no means enjoyed absolute control over his property.³³

Money did not play a significant role in the fortified estates of the feudal economy. The serf owed his lord a certain amount of work, and that work was never transformed into a specific amount of money. The serfs who were fortunate enough to work on Church estates were assigned a plot of land on which they had to work three days for their lord. This meant that they could develop that land for the other three days in their own interests.³⁴ Being bound to the land was the essence of serfdom, but being bound to work it for the lord for only three days out of six conferred on the serf a right to use that was tantamount to ownership. This arrangement became the basis of the Germanic-Christian concept of property and property ownership. Ownership in the Germanic-Christian sense was not absolute; it was based on use. The peasant had a right to 50 percent of what he could produce, but he did not have the right to turn the land into an object of speculation nor could he mortgage it to the detriment of either his lord or his descendants.

The guilds first emerged in Germany toward the middle of the 15th century, e.g., in Frankfurt, that of the shoemakers and the journeymen tailors in 1453; that of the canopy-makers in 1455, of the weaver helpers in 1460, of the cross-bow makers in 1471, of the barbers and of the gardeners in 1482, of the stone masons in 1518.³⁵

The Guild was autonomous, i.e., it controlled itself, and it was free as far as its internal affairs was concerned. The guild insured collaboration and solidarity rather than the instrumentalization of strife, which characterizes Anglo-capitalism. Members of a guild

were supposed to share with one another "all brotherly love and loyalty," and as a true and proper community to demonstrate brotherly love and loyalty according to what each one has for a lifetime, "to live peacefully and harmoniously with one another," and "to keep oneself honorable and friendly in keeping with Christian order and brotherly love," and all of this not only in their personal relationships, but also in the high offices of the cities and wherever else it is called for.³⁶

Guild members had to be born legitimately because "the sanctity of marriage is one of the strongest pillars of the social structure."³⁷ The guild also operated as a credit association and as a loan fund, for its entire movable and immovable wealth belonged to the corporate body, and it served

for the use and purpose of the individuals. The guild regulated competition and insured quality control. The guild prescribed not only its way of working, but also the raw material that was to be used and how it was to be handled, the kind and form and size of the product.

Any buyer who thought that he was cheated could turn to the head of the guild. . . . In Danzig. . . the goldsmiths had to come up with four pounds of wax as punishment for poor work. In Berlin, incompetent wool weavers and tailors lost the right to carry on their craft; furthermore, their wares were burned. Also, precise prices were set for the merchandise of the crafts, and the sale was regulated with the area, kind and time of the sale determined. Hawking and any improper solicitation of the customers of others was forbidden. The individual master could have only one place for selling.³⁸

Competition in the ruinous modern sense of the term was prohibited because the guilds controlled the economic terms of engagement. This did not mean the imposition of socialist equality, but it precluded the "race to the bottom" that brought about ruinous price-cutting. The member of the guild was a free man who could travel, and "every guild lodge had to take him in" because "travel constituted a main component of the journeyman's life."³⁹ He could also bear arms. The journeyman "carried a dagger and weapons like any master."⁴⁰ As a free man he could negotiate both wages and prices. The guild was responsible for acquiring raw materials setting wages and granting credit. As a result wages were higher in the Middle Ages than after the Reformation.

In Klosterneuburg (Lower Austria), for example, the daily wage of the mason and carpenter journeyman was set at 20 denar for the summer and 16 for the winter, at a time when a pound of beef usually cost 2 denar.⁴¹ For six days wages, a journeyman mason or carpenter in Miessen could buy himself 3 sheep and one pair of shoes. In pre-Reformation England, a worker earned enough in 3 days so that he and his family could live comfortably for one week.⁴² In addition, the guild provided social welfare benefits:

With the money in the treasury, not only were the poor and sick inside and outside the guild supported, but advances were also made to the poorer guild members—without payment of interest within the then closed economic order, in accordance with canonical requirements.⁴³

As a result, the isolation which is the main characteristic of modern life was unknown in the Middle Ages. The guild avoided the pitfalls of both socialism and cut-throat capitalism and "brought about a happy balance among conflicting interests, as was certainly only possible so long as the community stood above egotism, and the regard for honor was above the quest for profit."⁴⁴

The guild was the crowning achievement of the Germanic-Christian

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economic system. It introduced “free labor” into history. The guild arose from the development of social life in the cities; and the distinction of German handicraft is “the great fact of world history, that free labor was first awakened and introduced into history, with its infinite plenitude of blessing.”⁴⁵

The crucial test of any economy is, therefore, whether it values labor over usury or usury over labor. Usury and the just wage are the alternatives which, once chosen, will determine whether an economy is going to be a success or failure. Virtually every instance of capital accumulation in the modern capitalist era, beginning with the city-states of northern Italy, was theft of labor, carried out through usury and a combination of low wages and debasement of the silver currency or theft of property, as in the case of the Reformation. It’s difficult to find an instance of capital accumulation that was put to social use, unless of course, we turn to the system which preceded capitalism, which is to say the economic system of the Holy Roman Empire, the Christian successor to the Roman Empire, and the predecessor to the system which rules us with an iron rod today. William Cobbett is one of the few writers who understood that the monastic system in England was capital accumulation put to social use. The monasteries, he writes, “Flourished in England for 900 years; they were beloved by the people; they were destroyed by violence, by the plunderer’s grasp and the murderer’s knife.” The “‘Reformation’ robbed the poor of their patrimony.”⁴⁶ The looting of the monasteries changed England from “this land of roast beef. . . all of a sudden, into a land of dry bread and oatmeal porridge.”⁴⁷ This poverty came about because the people could no longer earn revenues from the land which the monks had preserved and developed for their use. Capitalism, which was begotten in the looting of Church property during the Reformation, begat in turn Liberalism as the philosophical justification of theft. Liberalism then gave birth to:

pauperism, class conflict, and socialism. However, whereas socialism may break the social and political power of liberal capitalism, it will not be in a position to establish a durable new social order, for any plant which was not planted by the heavenly Father will be uprooted. It was by a proper understanding of this truth that the old craft guilds made the Christian faith the focal point of their thinking and action.⁴⁸

Socialism lacked the objective and purpose of the guilds. Imbued with modern atheism, socialism failed to understand that:

Man ought to work for the sake of the glory of God who commanded work, and to have the blessing for his industry which lies in the soul; also to have what is necessary for our own to live by, and what is conducive to Christian joy and happiness, and no less so in order to share the fruits of our work with the poor and the sick. Therefore, associations and guilds of fellow craftsmen are good, to the

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extent that they strive for that. And whoever does not strive for that and who seeks instead only to accumulate money and riches by his work, such a person is behaving badly and his work is usurious; for as St. Augustine says, You should not commit usury with the work of your hands, because then you will lose your soul. And also: we should not tolerate usurers but society should ostracize them as harmful and lazy members. Consider well, therefore. . . . whether you have in mind God and not merely your profit and whether you also take into account the fellows in your fraternity (guild) for all that pertains to them, in life and in death.”⁴⁹

Unlike the capitalist state which leads inevitably to conflict by dividing society into creditor and debtor, and invariably favoring the interests of the former to the detriment of the latter, the feudal system upheld the organic character of society. Property ownership as a result “operated in. . . [a] unifying manner” because it protected the land from the “egotistical, unscrupulous exploitation in the interest of whoever happened to own it at the time; and it effectively preserved its destiny as the common source of sustenance of the people.”⁵⁰ Although it would take centuries before the principle was finally articulated, the Germanic-Christian economic system was based on “the unassailable principle that the temporal well-being of a nation lies not so much in the absolute level of the ‘national wealth,’” as in “the broadest possible distribution of its wealth to the whole nation.”⁵¹ It thereby eliminated the chronic state of capitalism, in which “enormous sums accumulate in the hands of a few,” while “hundreds of thousands of citizens elsewhere are left to wallow in the depths of mass poverty.”⁵²

Endnotes

- 1 Mark Haeberlein, *Die Fugger: Geschichte einer Augsburger Familie* (Stuttgart: Verlag W. Kohlhammer, 2006), p. 31. All translations from the German are mine.
- 2 Ibid.
- 3 Haeberlein, p. 28.
- 4 Haeberlein, pp. 32-3.
- 5 Jacob Strieder, *Jakob Fugger the Rich* (New York: The Adelphi Company, 1931), p. 30.
- 6 Haeberlein, p. 12.
- 7 Haeberlein, p. 32.
- 8 Heinrich Pesch, *Liberalism, Socialism and Christian Social Order: Book II The Philosophical Roots of Economic Liberalism*, translated by Rupert J. Ederer (Lewiston, ME: The Edwin Mellen Press, 2000), p. 189.
- 9 Pesch, *Liberalism*, Book II, p. 190.
- 10 Pesch, *Liberalism*, Book II, p. 169.
- 11 Pesch, *Liberalism*, Book II, p. 167.
- 12 Pesch, *Liberalism*, Book II, p. 170.

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- 13 Pesch, *Liberalism*, Book II, p. 171.
- 14 Ibid.
- 15 Pesch, *Liberalism*, Book II, p. 137.
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Chapter Twenty-One

Jakob the Rich

Jakob Fugger, later known as Jakob der Reiche, was born on March 6, 1459, as the reign of Cosimo de Medici was coming to a close. Jakob, like Joseph in the Bible, was the youngest of his siblings. He reached maturity under their tutelage and that of his mother, especially after the death of his father in 1469. Since there were elder brothers to take over the firm and since he showed precocity in matters of the spirit, Jakob seemed destined for the religious life. Thanks to the intercession of his elder brother Marx Fugger, Jakob was given minor orders as a child and granted a modest benefice in the Franconian Stift of Herrieden and seemed destined to rise in the church hierarchy.

But death intervened again. In the spring of 1478, the same Marx Fugger who had gotten Jakob his benefice, died suddenly while serving as the Fugger's branch manager in Venice. At this time, it was customary for the merchant class in Augsburg to send their children to Venice to obtain the late medieval version of the MBA, by acquiring the advanced business skills which the Italian city-states had developed over the course of the high Middle Ages. The death of Jakob's older brother left a gap in the firm which only he could now fill. Since neither Georg nor Ulrich could absent themselves from company headquarters in Augsburg, the family council decided that Jakob, the aspiring cleric, should devote himself to the mundane affairs of business by attending the Fondaco dei Tedeschi, the Venetian college for German businessmen.

And so, in 1478 Jakob began an apprenticeship in Venice, where he learned the most sophisticated business techniques that Italy had to offer. Freiherr von Poelnitz sees parallels with the Rothschilds. Like Mayer Amschel Rothschild, whom his family saw as destined to be a rabbi until Mammon beckoned, Jakob became the founder of a financial dynasty, and, like the Rothschilds, treasured up his treasure on this earth where rust can corrode and moth can eat.

Jakob's stay on the Rialto was short, but, perhaps because of his literary training, he proved to be a fast learner. Not only did he pick up the nuances of double-entry bookkeeping and other business techniques in the six months he spent on the Rialto, he also became a businessman in the Italian mode. Jakob would remain inordinately proud of his Italian apprenticeship for the rest of his life, affixing in his intricate Gothic handwriting the Venetian Giacomo (instead of the homely Jakob) to all of his company's

documents, receipts, and bills of exchange. Long after his return from Venice, Jakob's brothers "still called him by the Italian form of his Christian name," and "his contemporaries thought of him as the bearer of Italian inheritance."²

Jakob Fugger had acquired in Italy precise knowledge of the most advanced mercantile practice, especially bookkeeping, which enabled him later, on his frequent trips of examination to test the accounts and balances of the various Fugger branches, to have at his command a detailed understanding of the whole network of Fugger undertakings. Like Jakob, who became his boss, Matthaeus Schwartz, who became Jakob Fugger's chief bookkeeper, had spent his years of apprenticeship in the Italian cities. Schwartz sought out in Milan, Genoa and Venice the best masters in his chosen profession. It was there that he learned the lessons of Italian commerce which had become indispensable in running a business of the size of the Fugger family's far-flung enterprises. Unlike his German contemporaries, the modern entrepreneur had to ascertain clearly the exact condition of his business, and the only way he could do this was through accurate keeping of accounts in the Italian mode, which is to say, via double entry book-keeping. Matthaeus Schwartz had nothing but scorn and contempt for merchants who claimed that they could keep their accounts in their heads. Any entrepreneur who aspired to manage a large enterprise had to avail himself of the "wealth-creating art" of bookkeeping because it alone furnished with complete security the most important prerequisites for business success, namely, the capacity of seeing things as a whole and in detail. The entrepreneur needed to be able to weigh the possibilities and risks of a business transaction as exactly as a baker would weigh flour with a pair of scales.³

The union of the Germanic guild system with Italian financial techniques, which took place in Augsburg and surrounding German towns during the last decade of the 15th century, created an explosion of economic growth. Strieder claims that Jakob Fugger inaugurated "the second golden age in German commercial history."⁴ That period began with the decline of the Hanseatic league in the north, and "it ended during the last decades of the 16th century, when the supplies of precious metals brought from the New World robbed of their chief importance the European mines."⁵ In the interim, the Fuggers ruled the financial roost in Europe.

Strieder describes the "Italian inheritance" which guided Fugger as "a frame of mind, that spirit of nationalistic individualism which the Italians had developed earliest and most completely of all the European commercial nations." The "two most important prerequisites for the development of Italian haute finance: sufficiently great accumulations of wealth and entrepreneurs competent to conduct international financial transactions."⁶

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Jakob Fugger's career marked the end of the medieval age and the beginning of the modern; he also brought about a synthesis of the Germanic and Italian economic systems. The capitalistic enterprise begun in the city-states of northern Italy achieved its next phase of development during the 15th and early 16th centuries

under the leadership of South German entrepreneurs. . . . There spread rapidly through a fairly large and economically active class in Germany the capitalistic spirit—a consistent, unchecked, never-satisfied search after gain. This spirit found its most complete expression in the Augsburg of the 16th century. In this city, enormous capital accumulations. . . . growing out of commerce and industry were being concentrated in the hands of a few large merchants.⁷

Jakob Fugger was the paradigmatic German capitalist of his age. "The rise of this new, powerful, and important social class is directly related to Fugger's activity. It is due to him that former efforts at creating a German entrepreneurship on a grand scale were crowned with success."⁸ By combining the experience of the German guild with the financial techniques of the Italian city-states, Fugger brought about "the culmination of early European capitalism, which had been developing in Italy since the beginning of the Renaissance."⁹ By studying at the Fondaco dei Tedeschi in Venice, Jakob gained access to "the whole technique of the financial system. . . as it had been brought to perfection by the Italians from the 13th century onwards."¹⁰

The notion that Jakob synthesized the best aspects of Italian and German finance does not preclude the conflict inherent in the meeting of those two systems, something that Strieder adverts to: "The development of the entrepreneurship of Jakob Fugger bears readily recognizable traces of that early European capitalism which arose in Renaissance Italy in contrast to the cooperative ideals of the medieval guilds."¹¹

"Synthesis" may not be the best word to describe the meeting of the German and Italian economic models which Jakob Fugger brought together in Augsburg. It is impossible to synthesize the Germanic and the Italian economic traditions because they are based on contradictory first principles. The German system is based on the valuation of labor; the Italian system was based on manufacturing, but it quickly lost sight of its origins and became involved in finance and ultimately usury. The Christian-Germanic tradition, which saw as its culmination the creation of the guild system in the 15th century, was based on the Christian understanding of the dignity of human labor as taught by the Benedictine monks, in the thousand year long tutorial they held for the benefit of the Germanic tribes which had destroyed the Roman Empire. The Italian system was based on the Renaissance's repudiation of that heritage and a return to the vomit of pagan models based on the classical world's contempt of labor and its promotion

of usury and free market capitalism. So upon closer inspection Jakob Fugger embodied no synthesis at all. Instead he embodied the contradictions of his age in a way that he was unable to understand.

On the one hand, Jakob Fugger was the pious promoter of late medieval devotions. His sepulchre in the Fugger chapel at St. Anne's Church inaugurated the Renaissance in Germany. It was accompanied by bequests for Masses to be said for him and his family, long after the chapel fell into the hands of Protestant iconoclasts. The Fugger's love of architecture made them the first important patrons of German art. The same is true of the family's love of books and manuscripts, which provided the basis for the Fugger library. The Fugger family was generous to the poor, and as a manifestation of that generosity, Jakob built in the Fuggerei the first housing project for those whose lives had been dislocated by the economic changes he was instrumental in bringing about. The Fuggerei was based on modern principles of city planning and hygiene. Without his financial assistance the counter-reformation would have remained an idea on paper. On the other hand, he was a ruthless usurer who had no compunction about driving fellow Catholics and even relatives by marriage, as in the case of old Ambrosius Hochstetter, to the wall if it served his financial purposes.

Collision is a better word to describe the new system which Jakob Fugger inaugurated when he returned to Augsburg armed with the latest Italian business techniques. Fugger brought about a collision which produced unforeseen consequences. The political matrix where this collision took place in the 16th century was known as the Holy Roman Empire. The Holy Roman Empire, as Voltaire put it, wasn't holy, Roman or an empire. Leaving aside Voltaire's anticlericalism, there are anomalies here that need to be explained. The Holy Roman Empire was never a state in the modern sense of the word. It was an economic system under the purview of the Catholic faith. According to Raymond H. Schmandt,

The Holy Roman Empire was the medieval state that embraced most of central Europe and Italy under the rule of the German kings from 962 to 1806. It was considered to be a restoration and continuation of the ancient Roman Empire, although in fact it had little in common with its predecessor. Earlier, the Frankish king Charlemagne had revived the same name. His Roman Empire lasted from 800 to 925. In 962, Otto I of Germany and Pope John XII cooperated in a second revival. Threatened in his possession of the Papal States by Berengar II, king of Italy, John begged Otto to come to his aid. Otto did so, and the Pope solemnly crowned him Emperor of the Romans as a reward. From this time, the German kings claimed the right to rule the empire.¹²

In theory, the Holy Roman Empire (the word "Holy" was added during the 12th century) reflected two important medieval values: the unity of all Christians, or at least all Western Christians, in a single state as the civil counterpart to the One Holy Catholic Church; and a concept of hierarchi-

cal political organisation that called for one ultimate head over all existing states. In practice, the Empire never fully conformed to either ideal. France and England, for example, never acknowledged any real subordination to the emperor, although they recognized a vague supremacy in him. The churchmen who crowned the emperors, and thus sustained the Empire, considered it the church's secular arm, sharing responsibility for the welfare and spread of the Christian faith and duty-bound to protect the Papacy.

When Luther posted his 95 theses in 1517, there was no country by the name of Germany. It only came into existence three and a half centuries later. Luther posted his theses in a town on the Elbe River which was part of the Kurfurstentum von Sachsen, a principality whose prince was one of the electors of the Holy Roman Empire, which was an intricate mosaic of tiny principalities, duchies, ecclesial states ruled by bishops and independent cities of the sort that had become wealthy through commerce in northern Italy. "After the treaty of Westphalia (1648)," according to Schmandt, "the Holy Roman Empire was little more than a loose confederation of about 300 independent principalities and 1,500 or more semi-sovereign bodies or individuals."³ In Luther's day, its political organization was even more complicated, although its religious organization was simpler.

Travelling overland was fraught with physical difficulty and peril, but if Luther had sailed downstream on the Elbe, he would have immediately entered the principality of Anhalt. Then he would have entered the Archbishopric of Magdeburg before traveling another 40 miles. Before traveling another 20 miles downstream, he would have entered into the Kurfurstentum of Brandenburg, then skirting the Duchy of Mecklenburg for another 90 miles he would have come to the free Hanseatic city of Hamburg. From there he would have to sail another 30 miles between the Archbishopric of Bremen on the south and the Duchy of Holstein on the north before reaching the North Sea.

Luther's voyage upstream on the Elbe would have been slightly less complicated politically. He could have sailed for approximately 100 miles in Saxon territory before reaching the Erzgebirge mountain range which signaled the border to the Kingdom of Bohemia, which then blended seamlessly into the Austrian empire.

If he had traveled southwest toward the Swiss confederation, he would have traversed a political mosaic of staggering complexity. This was in fact the route he took when he decided to confront the Peasant's Revolt, an uprising which he unwittingly brought about by breaking the unity of the Church and thereby undermining the Catholic foundation of the loose political order of the Holy Roman Empire. The peasants mobilized under the leadership of Luther's former student Thomas Muenzer, who accused Lu-

ther of cutting a deal with the German princes. In exchange for recognition as the state church, Luther granted the princes all the church property they could loot. No one, not even Muenzer put the situation more succinctly than William Cobbett when he said that "Plunder . . . was the mainspring of the 'Reformation.'"¹⁴ This was true of every reformation. The "reformers" were designated guardians of the established Church in exchange for the Church property they handed over to the looting princes.

Although the deal was the same, the outcome differed depending on local circumstances. The outcome in England ended up being radically different than the outcome in that mish-mash of German states known as the Holy Roman Empire.

The Holy Roman Empire was never a state in the sense that England and France, which never recognized the emperor as their sovereign, were states. The Holy Roman Empire was the secular arm of the Catholic Church. It was a political organization which coalesced around the convergence of two forces: 1) the settling of the wandering Germanic tribes after the *Voelkerwanderung* under 2) the civilizing influence of the Catholic Church in general and monastic orders like the Benedictines in particular.

The German economic boom which the Fugger family inaugurated ended when the Habsburgs defaulted on their loans in the middle of the 16th century. The final blow to the economic life of Germany was then dealt by the Thirty Years War, which together with the religious and political disunion of the German lands, brought on an economic decline so great that complete recovery came only after more than a century and a half had elapsed. Then in the 19th and 20th centuries, the third great period in German economic history began, one which gained momentum in the 1850s and 1870s and closed with the beginning of the World War in August 1914.

After the treaty of Westphalia, the weaknesses of decentralization were exacerbated by the further division caused by the Reformation. The German principalities were in no position to compete against France on the one hand, which was unified and Catholic, and England on the other, which was unified and Protestant. The Holy Roman Empire was disunified both politically and religiously, and this lack of unity impeded the development of the uniquely Christian economic system based on the guild's valuation of labor.

Napoleon I finally destroyed the empire after defeating Austria and its imperial allies in 1797 and 1801. Napoleon then annexed some German land and suggested that the larger territories compensate themselves by confiscating the smaller free cities and ecclesiastical states. By the Diet's Recess (1803), 112 small states were thus seized by their neighbours. Three years later Napoleon compelled 16 German states to form the Confederation of the Rhine and to secede from the empire. On March 6, 1806, Francis II,

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who had previously assumed the title of Emperor of Austria, abdicated as Holy Roman Emperor and declared the old empire dissolved.

As we have indicated, the basis of the feudal economy was labor not money. The lord of the manor did not receive money from his serfs; he received labor. The rise of the money economies in the city-states of northern Italy during the period from the 13th to the 15th centuries, put the feudal estates of the Holy Roman Empire at a disadvantage. When it came to projecting military power, unified states with stable monetary incomes in taxes had an advantage over the bewildering patchwork of principalities, duchies and bishoprics in which serfs owed three days a week labor to their lords. It was not easy to monetize this system, but monetizing it was precisely the service which the Fuggers provided for the Habsburgs, the rulers of most of Europe at that time.

Jakob Fugger made use of Italian financial techniques, but he never lost sight of the fundamental insight of the Germanic guild system, namely, that labor is the only thing that can produce value. Over the 14th and 15th centuries the Florentines got out of the wool business and concentrated their efforts in banking, papal banking in particular. The Fuggers never made this mistake. They became bankers for the popes and the Habsburgs, but they first became involved in mining and smelting. Strieder claims that "in this phase of his activity he followed in the footsteps, not of the Italian, but of the German, and particularly of the Augsburg entrepreneurs."⁵ The decision to move, not directly from weaving to banking, but from weaving to mining to banking made him "the greatest industrial magnate of his time."⁶

Endnotes

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- 2 Ibid.
- 3 Goetz Freiherr von Poelnitz, *Jakob Fugger: Kaiser, Kirche, und Kapital in der oberdeutschen Renaissance* (Tuebingen: J.C.B Mohr Paul Siebeck, 1949). All translations are my own.
- 4 Strieder, p. xx.
- 5 Ibid.
- 6 Strieder, p. 2.
- 7 Strieder, p.xxi.
- 8 Strieder, p. xii.
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- 12 Raymond H. Schmandt, "The Holy Roman Empire," *About.com*, <http://historymedren.about.com/gi/dynamic/offsite.htm?site=http://www.biblebelievers.org.au/hrea.htm%23THE%2520HOLY%2520ROMAN%2520EMPIRE>
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Chapter Twenty-Two

The Fuggers and the Habsburg Mines

The capital which the Fuggers accumulated through trade in fustian allowed them to diversify their operations in the 1480s. After returning to Augsburg from his apprenticeship in Venice, Jakob Fugger and his elder brothers got into mining in the Tyrol, the mountainous region of Austria or Italy (depending on the era) on the southern slope of the Alps. The Fugger brothers thus distinguished themselves in boldness from the average Swabian merchant/banker who shied away from the risks involved in mining. By lending money to small operations in the Salzburg area, the Fuggers acquired shares in existing operations, and by continuing to lend money, they gradually acquired a controlling interest in the firms, and then the firms themselves, and finally, a monopoly on all silver and copper production.

The Fuggers got into mining at precisely the right moment, at the height of what has come to be known as the "Great Bullion Famine of the 15th century."¹ The net economic result of the Black Death of 1347 was a decrease in the labor force combined with a concentration of wealth into fewer hands. The increase of individual wealth led to increased demand, and increased demand coupled with a 40 percent decrease in the European work force led to a rise in wages. The stage was set for an expanding economy.

That expansion was hindered by a lack of money. Europe in the mid-15th century was still a labor-based economy, especially in the Holy Roman Empire, in which a serf owed not taxes, which is to say, a monetary payment to his lord, but days of work. This contributed to a valuation of labor which would stand the German principalities in good stead over the long haul, but it was not conducive to raising money quickly over the short haul, as for example when imperial troops were needed to fend off imminent invasion, as was the case throughout the 16th century.

The other factor hindering the expansion of the economy was the nature of money itself. Money was, with a few notable exceptions (which were limited to the realm of high finance) pieces of precious metal known as coins. During the 15th century access to the precious metals was severely limited. Mining meant exploiting readily accessible veins of ore, which is to say, those close to the surface. By this point in time, virtually all of the easy ore had been extracted and no new technology allowed access to less accessible lodes. According to Peter Bernstein, by the 15th century, "Mining sources . . . dried up as even record high pay was insufficient to attract men to the discomforts of working the gold mines."² Bernstein estimates

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that by 1400 Europe produced only four tons of gold. This meant that the money supply was actually decreasing relative to the productivity of the economy. The entire European economy was based on a gold supply which had been accumulated over the past 3,000 years but which was no larger than a cube of precious metal two meters in each dimension.³

The dearth of specie was even greater because gold coins for the most part did not circulate and because they were too large in denomination for the transactions of the average man, who relied on silver specie to pay for most of the things he would purchase. Day estimates that "total bullion reserves in Europe shrank by 50 percent between about 1340 and 1460."⁴ According to Bernstein,

The dearth of both silver and gold provoked a reversion to barter in many communities, especially for local payments. Pepper, worth more than its weight in gold, was the most popular commodity enlisted for this purpose; German princes even called their bankers "peppermen."⁵

Paper currencies began to proliferate, but not nearly as much as the expanding economy demanded. As a result the price of gold and silver (which is to say, its purchasing power) began to rise. The prices of commodities fell, making gold and silver still more valuable:

When money is in short supply, people try to economize on the amount they spend for goods and services. The usual result is a declining price level. This is precisely what happened during the 15th century. Reliable estimates indicate that prices for commodities throughout western Europe fell anywhere from 20 percent to 50 percent between 1400 and 1500.⁶

Since no one could conceive of a monetary system without precious metals as specie, the solution was to find more silver and gold. According to Bernstein, "The alluring combination of falling commodity prices and rising gold prices promised tempting rewards for those who could find new sources."⁷ This quest for gold and silver was one of the main motivations which led to the discovery of America, which brought in gold and silver bullion in unimaginable quantities beginning around 1530. But until that happened, the only way to increase the supply of precious metals was to dig them out of the ground in Europe.

And that is precisely what the Fugger family did. For the 50 years from 1480 until 1530, when the riches of the American mines began to pour into Spain, the Fuggers got involved in mining operations. They became involved when the economy was starved for the precious metals that were at the time the only source of money in the economy. The Fuggers invested their money first in the Tyrolean silver mines and later expanded their operations to copper in the Tyrol and silver in Hungary. As a result, the Fuggers became the specie kings of Europe when Europe was starved for money, and Jakob Fugger, aptly known as Jakob der Reiche, became the richest man in the world. Jakob Fugger's genius lay in his ability to recognize new business opportunities; he also had an enormous capacity to carry them to fruition. The financial pre-eminence of the Fugger family was largely the

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result of the ability to bring these two gifts to bear on the burgeoning southern German mining industry.

The general demographic and economic expansion in the European economy led to a growing demand for precious metals, and that in turn led to a growing need for capital investment in the mines. In order to get at the untapped ore loads, underground mine shafts had to be dug deeper and new technological improvements were needed to keep these deeper mines in operation. In addition, this required investments which the Tyrolese were incapable of financing on their own. These unfulfilled needs allowed the capital-rich merchant families of southern Germany to get into the lucrative precious metals business by combining money lending and mining operations.

During the 15th and early 16th centuries the rapid development of mining in the Holy Roman Empire gave Germany an economic advantage over other European countries. Cognizant of the ultimate source of the money he borrowed from the Fuggers, Charles V referred to the mines of his empire as the greatest gift and source of profit "which Almighty God had vouchsafed the German lands."⁸ He estimated the yearly production of the mines of the Holy Roman Empire at a minimum of 2,000,000 gold gulden and claimed that 100,000 of his subjects were employed in mining and smelting.

Sensing the opportunity, the Fuggers soon outstripped their Swabian competition, which in general shied away from the risk involved in mining. Ulrich, Georg and Jakob were of a different mind. By lending money to small operations in the Salzburg area they soon acquired their own businesses.

Just four years after entering the Innsbruck market, Jakob had a controlling interest in the Tyrolean silver business. On June 9, 1488, the Fuggers agreed to pay an advance of 150,000 in monthly installments to Sigismund der Muenzenreiche, or Sigmund the Moneybags, in exchange for exclusive rights to exploit the silver lode in Schwaz, for which they would pay eight gulden per mark in weight. The Fuggers could then sell what they mined for a handsome profit on the open market. The terms were so favorable that the Fuggers were able to drive the competing Augsburg firms run by the Baumgartner von Kurstein family out of the market.

The deal was less favorable for Sigmund, who abdicated less than two years later on March 16, 1490 because he was hopelessly in debt. Sigmund's abdication then set the stage for the beginning of the Fuggers' fateful relationship with the Habsburgs, when Maximilian I, the Holy Roman Emperor, absorbed the over-leveraged Tyrolean throne. Unlike Sigmund, the personality of Maximilian opened up financial markets and political perspectives on a pan-European scale. By linking their fortunes with Maximilian, the Fugger firm broke free from the obsolete modest business methods of the conventional moneylenders and enabled their dizzying rise to the level of a world bank, the like of which the German economy had never seen before.

In March 1491, Maximilian I took out his first big loan with the Fuggers.

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Thus began a relationship which would end in ruin for both the Fuggers and the Habsburgs when Philip II, Maximilian's great-grandson, announced that the Spanish government was forced to suspend payments on its debt in 1577. What seemed (at the beginning of the relationship) like a match made in heaven, soon began to resemble two drowning men clinging to each other in a raging torrent of debt. The warning signs were visible early on. Before long, anyone with access to the state's books in the Tyrol could see that the advances to the king on future revenues had increased to such an extent that the Sigmund the Moneybags squandering seemed harmless by comparison.⁹

After March 1491, when Maximilian received an advance of 120,000 gulden on 30,000 marks of silver, the Fuggers were always there when the king needed money, and since the king always needed money the Fuggers became an indispensable part of his government. Before long the court in Innsbruck could undertake nothing without the financial assistance of Fugger credit. Time and again Maximilian came to the Fuggers for new loans, and to secure them, he had to hand over more and more exclusive rights to Austria's natural resources, in particular the rights to precious metal ores. This commerce in precious metals would constitute the backbone of the relationship between the Austrian crown and the commercial banking firm from Augsburg. In October of 1508, the Fuggers advanced Maximilian 300,000 gulden in exchange for 30,000 marks of silver and 15,000 hundred-weight of copper.

The great bullion dearth took place when the economy of the Holy Roman Empire was still based on labor. The serf owed his lord three days a week of labor. When every prince was rich in labor but chronically short on cash, the Fuggers helped the Habsburgs monetize their assets:

the ever needy Habsburgs looked upon the mineral resources of their territories . . . as the best security for financial advances. In this way, the big Augsburg trading companies were led into the metal trade simultaneously with the lending business, and often earned as large sums in one as in the other. The individual merchant often rose from metal trading on a small-scale to large-scale operations by means of loans to "ore-wealthy" princes. From wholesale trade in metals it was only a step to the acquisition of mines, mining stocks, smelting works, and thus to entrance into the mining industry.¹⁰

As one might expect of economic activity in the early stages of capitalism, the Fuggers were involved in a number of different enterprises, some of which were morally licit and some of which were not. The Fuggers were pulled in two opposite directions at once: toward the labor economy of legitimate investment and toward the usury economy which was on the verge of once again gaining the ascendancy. For centuries the Church had been complaining that usury meant no shared risk. Usury, according to St. Bernardine of Siena, killed both charity, when it came to the poor, and business, by discouraging investment, when it came to the wealthy. Tainted by their involvement in usury, the Augsburg bankers were largely un-

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willing to invest in mining operations in the Tyrol, which meant that they were unwilling to share risks, which meant that the Fuggers, who were willing to share risk, had an open field for investment. As a result of Jakob Fugger's vision and his readiness to act, the Fugger firm got in on the ground floor when the European economy was starved for the precious metals which constituted money.

Both the technology of mining and the financing of that technology were *terra incognita*, and therefore full of risk, which the conventional bankers chose to avoid. Instead of the evil they didn't know, risk in a new venture, they chose the evil they did know, lending to princes, and as a result missed the opportunity that the Fuggers seized in the production of precious metals in Europe. There was rarely a direct business relationship between the mining entrepreneur and the merchant, in which the latter did not undertake to furnish a considerable part of the capital and thus to share the risks of the producer. Strieder points out that

The merchant was the only agency through which the industrial entrepreneur could get the capital which he needed for the expansion of his business. . . . The metal trader of the 15th and 16th centuries often had to invest considerable sums in mining.¹¹

Sometimes the merchant had to make advances to the smaller mine operators whose products he bought. Sometimes "the merchant had to set up smelting works where the crude ore could be refined in a merchantable form."¹²

The Fuggers were willing to share the risks that went along with investment, but in order to invest, they had to lend the Habsburg princes money, which meant usury. As a result, much of their wealth was profitably and licitly (according to Catholic teaching) invested in the mines and smelting operations that produced silver from the Tyrolean ores, but a disturbingly large amount "disappeared in the Danaides sieve of princely loans."¹³

No one engaged in finance at this period of European history was unaware of the dangers associated with lending money to princes. The example of Edward III of England defaulting on his loans and driving the Bardi and Peruzzi families of Florence into bankruptcy a century and a half before was always before the Fuggers' eyes. And yet, it was impossible to do business in lands controlled by the Habsburgs unless the Fuggers lent the Habsburg princes money. Maximilian was generous to a fault (or foolishly naïve) in concluding terms, but the terms invariably involved lending him more money, often so that he could pay off previous debts. The only thing that prevented this arrangement from collapsing sooner than it did was the valuable ores which the Fuggers extracted from Austrian soil when the value of precious metals was at an all-time high.

Once he was able to bring the silver business under his control, Jakob set out to corner the market in copper. Before long, the Baumgartners got pushed out of the Tyrolean copper market in the same way that they had been marginalized in the Alpine silver markets. Jakob Fugger understood that the future of the Habsburgs lay to the southeast, an area of Europe rich in metals. Once the

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Fuggers were willing to accept the risks, they realized that that country's mineral resources offered unimaginable possibilities.

From the control of the Alpine mines it was but a short step to taking over the leading position in European money markets in places like Antwerp, because of the growing importance of the metal production. The Fuggers were geniuses at accessing capital from other sources as well. Permanent civic annuities paid by the city of Augsburg had fallen to 4 percent by the middle of the 15th century, so mining stocks in companies run by the Fuggers were increasingly attractive to the rentier class there. The capital the Fuggers derived from this market then got reinvested in mines in both the Tyrol and Hungary, which became much more productive because of the technological improvement the Fuggers implemented. Mining provided the ideal opportunity to combine Italian financial instruments and German labor and technology.

On November 15, 1494, the Fuggers signed a deal with Johannes Thurzo and his son Georg, who had just leased silver mines in Neusohl (Banska Bystrica) in what is now Slovakia. The Fuggers closed the deal through a middle man by the name of Kilina Auer to spare Hungarian nationalist sentiments. The Hungarian *woiwoden* were typical of the lower nobility in Holy Roman Empire at that time. They were incapable of exploiting their own natural resources, but they were also resentful when foreigners with superior technical and financial skills stepped in to do it. As the silver drained out of Hungary into the coffers of the Fuggers, the resentment would grow and ultimately lead to a clash that would threaten the very existence of Christian Europe. But that crisis was 30 years in the future.

In the meantime, the Fuggers had found the right man for the job when it came to mining technology. There is no record of how the two titans of the mining industry met. Thurzo brought his technical know-how into the partnership, while the Fuggers took over the financing. Thurzo was an ingenious inventor who understood the mining industry from top to bottom, and Jakob Fugger possessed the same magnitude of genius in the complementary area of capital and finance, and this marriage of effort took place when silver was more valuable than it had been and more valuable than it would be for centuries to come. Thurzo, according to Strieder, "Understood how. . . to restore to use mines flooded by water;" he also "understood how to make use of the art of separation of metals"¹⁴ via the Saiger process, which used lead to effect the separation of copper and silver. The Fuggers agreed to a joint venture with the Thurzos in operating the mines for the next 16 years as well as building a smelter.

Strieder claims that "in Hungary, which became part of the Holy Roman Empire only in 1527, it was German miners who in the early Middle Ages had first begun the systematic exploitation of the ores. And the chief buyers. . . were the Hanseatic merchants."¹⁵ In the Fall of 1495, the company signed contracts with a Cistercian monastery on the north slope of the Thuringian forest, which created operations in middle Germany parallel to the operations in Gastein, Neusohl, and

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Fuggerau. By 1495 they had acquired a lead mine near Villach in Carinthia, and they built a Saigermill at the Arnoldstein monastery, which belonged to the Archbishop of Bamberg.

Between 1495 and 1504, 50,000 centner of copper and 22,000 marks of silver were shipped from Fuggerau to Venice. According to the calculations of Leon Schicks, between 1494 and 1526 316,832 marks of silver with a market value of two million gulden were produced by the Saigermills of the Hungarian branch. Reinhard Hildebrands places the Slovakian production as 37 percent of the entire European copper production in the first decade of the 16th century, and that figure rose to 40 percent in the second decade. Over the course of nine years, the smelting plant in Thuringia produced 54,000 hundred weight of copper and 32,000 marks of silver. If we add to that the production of the Neusohl plant, income from the Hungarian trade between 1495 and 1504 amounted to roughly a million gulden.¹⁶

In April of 1496, the king of Hungary granted to Thurzo the right to build more Saigermills. He also granted him the right to sell a percentage of the silver that he produced on the open market.¹⁷ The firm thus secured the possibility of enormous profits. The Fuggers also exploited Thurzo's Hungarian nationality as a way of defending themselves against the protests of Hungarian nationalists.

In addition to their financial skills, the Fuggers brought their enviable political connections to the table any time a deal was in the offing. The Thurzos allowed the Fuggers access to Hungarian soil when foreigners were barred from commerce there. The Habsburgs allowed the metal extracted from the mines in Neusohl access to the markets their family controlled throughout Europe. When difficulties arose, the Habsburgs had the political clout to make them go away—in exchange, of course, for more loans. Jakob Fugger was content to operate behind the scenes, as long as the operations he financed went smoothly.

Jakob got the Roman-German king involved to remove obstacles which Thurzo was unable to deal with. Without Maximilian's assistance, Swabian capital never could have prevailed against the Hungarian nationalist sentiment arrayed against it in Neusohl. When Thurzo demanded a greater share in the profits, however, Fugger had no compunction about forcing him out, and because he controlled the financing of the operation, Fugger had the power to enforce his views. Thurzo was inexorably, if politely, pushed aside.¹⁸

Even with Thurzo out of the picture, the Fugger operation continued to grow. With the help of middlemen, Jakob received permission from the Duke of Silesia-Teschen to build a road over the Jablonka Pass. Because of the reach of their capital, the Fuggers were able to gobble up one small mining operation after another. As previously independent operations fell into the hands of the Fugger-Thurzo combine, native merchants saw in the companies' commissaries, which supplied the mine and smelter workers with food and other daily needs, undesired competition. The Hungarian firm's high demand for lumber led to conflicts over logging

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rights and the tax credits which the Fuggers had been granted led to financial crises in the mountain towns where they operated.¹⁹

In 1508 a certain Hieronymus Tischler, who was in debt to the Thurzo family, attempted to foment a rebellion, but he was sentenced to death as a revolutionary. The Fuggers then used their new-found wealth to drive their competitors to the wall. Thanks to the expansion of the Slovakian mining operations under the Swabian direction and the outstanding profits which accrued, Fugger could now contemplate the gradual centralization of the copper market. Success in the Tyrol alone was insufficient. On March 12, 1498, Jakob Fugger signed a contract which brought the first copper cartel in German history into existence. He then lost no time putting his new-found financial clout to work. By the fall of 1499, Jakob was able to destroy the Augsburg copper syndicate by using Thurzo's name to sell Hungarian copper at dumping prices. Once the competition had been eliminated, the Fuggers had a monopoly and now could raise prices with impunity to "recoup the losses they had voluntarily incurred on tactical grounds." According to von Poelnitz, "The ruthlessness of these tactics was unusual for those times."²⁰ The resentment of his competitors manifested themselves as "anti-Fugger" politics, which Georg Grossembrot prosecuted at the court in Innsbruck.

The destruction of the Augsburg syndicate in 1498 was a low point in German business ethics, marking the beginning of alien thought in conventional trade practice. Jakob's plan to lower copper prices, combined with a corresponding increase in production and inventory, in order to get better returns, remained incomprehensible to non-merchants, and seemed dubious to them. The more production improved in the Neusohl mines, the more the Fuggers took over leadership of the Hungarian trade by predatory financial dealings. They understood that the value of the natural resources came not so much in mining but rather in smelting and marketing.²¹

The behavior of the Fugger family (and of Jakob in particular) is characteristic of the paradoxical nature of the age. The Fuggers were the quintessential transitional link between the piety of the high Middle Ages and the rapacity of the capitalist spirit which was the driving force of the modern era. They were at once pious Catholics, who were lavish in their dealings with workers and the poor, but ruthless in their treatment of fellow merchants, not hesitating to sell at dumping prices to drive the competition to the wall. The Fuggers represented an unlikely combination of rapacious Italian usury at its worst, combined with a Germanic Catholic piety according to which they treated their employees fairly, something which can be seen as the legacy of the Germanic-Christian tradition and the high value it put on human labor. Each employee of the Fugger firm received a lavish salary plus expenses. As a result, these employees signed contracts that ran years into the future, even though they knew that the utmost was expected of them. Jakob was on the road for large portions of the year in order to finetune his understanding of every aspect of his operation both in terms of materials and men. In

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one instance, this meant living for weeks in the forests of Thuringia, where he was “shut off like a charcoal burner from all civilization,”²² to supervise the building of smelter.

While there he took time from the technical aspects of the metal industry to have the local Church renovated. He also concerned himself with the needs of his workers in the Slovakian and middle German mining operations. In Neusohl, he paid for the renovation of a hospital and encouraged others to follow his example. While at Hohenkirchen he petitioned Pope Alexander VI for a mitigation of the fasting rules. It was impossible, in his opinion, for men working in the mines or the smelters to follow the Church's rules on fasting. He was able to work out a deal with the pope which relaxed the specific rules. The time had not yet arrived for social measures or welfare on anything but a local scale, but he did his best to ameliorate the working conditions under his control.²³ The whole enterprise was surrounded by a sense of solidarity between the lord and his followers and was underpinned by a serious consciousness of the religious responsibility which the employer bore. This conjunction of differing attitudes toward business practicality on the one hand and religious devotion on the other was typical of Jakob.

Nonetheless, it was not clear how these contradictory parts, which we have designated “Italian” and “German,” fit together. The Fuggers may have succeeded the Medici as Christendom's premier banking family, but they never lost sight of the sober facts in the literary intoxication which flowed from the beauty of antique texts or the rediscovery of their glories. Jakob Fugger was not so easily moved. He wanted to be and to remain what he was by nature, which is to say, a merchant with every fiber of his being, even to the point of perfection. As such he loved columns of figures in the same way and with the same fervor that others loved the classics, and he knew how to construct his own political-economic world better than the best classical architects of his day knew how to construct buildings.²⁴

His system was attacked from without because his individualistic notions about the use of capital, as well as his cartel building, and his international connections, contradicted the conventional wisdom and the bourgeois way of doing business. The Fuggers were hated. Nonetheless, the merchant was fiercely loved by his own people, who saw him as an inimitable example of the commercial talent that was the basis of their prosperity.

Rather than rein Jakob in, Maximilian decided to exploit Jakob's industry (or his ruthlessness) for his own purposes. The Habsburgs were at a disadvantage *vis à vis* the kings of England and France because of the decentralized nature of the Holy Roman Empire and the disordered fiscal situation which flowed from that fact. The French crown seemed to have access to inexhaustible resources thanks to an orderly tax system and the legal possibility of forced loans. The same thing could be said of the fortunes of the King of England, who was a big time financier in his own right. Things were different for Maximilian.²⁵ The emperor was unable to raise the money he needed by taxation, but with his astounding power,

Jakob satisfied their every need with the magic formula of the New Age: credit. The Fuggers loans were also to bring about an unfolding of the mining industry and thereby increase the further monetization of the country.²⁶

As a result, a *quid pro quo* evolved between the Fuggers and the Habsburgs. The charge of "usurious monopoly" was often brought against Jakob Fugger and his undertakings, but the emperor invariably brushed these charges aside in light of the advantages he gained by his relationship with the Fuggers.²⁷ In an age when the sanctity of contracts was unknown and the sanctity of usurious contracts an oxymoron, Jakob and Maximilian worked out a financial *modus vivendi* that would last for generations and paved the way for the development of the capitalist finance of government debt. Following Maximilian I's example, the German kings and Emperors secretly pledged themselves unconditionally to honor the monopolistic ore contracts to protect the merchants, in case they were attacked on behalf of the Empire as monopolists.²⁸ In exchange for loans from the Fuggers, the Habsburgs granted them monopoly status in exploiting the Empire's natural resources. In the final analysis, it seemed quite natural for the king to allow a monopoly, instead of dealing with a dozen different interests as he had in the past. This was the simplest solution to how to keep the extremely expensive court of the last knight including his war machine and his political operation flush with money.

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Endnotes

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- 3 Bernstein, p. 110.
- 4 Ibid.
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- 6 Bernstein, p. 111.
- 7 Ibid.
- 8 Jacob Strieder, *Jacob Fugger the Rich*, (New York: The Adelphi Company, 1931), p. 32.
- 9 Goetz Freiherrn Von Poelnitz, *Jakob Fugger: Kaiser, Kirche, und Kapital in der oberdeutschen Renaissance*, (Tuebingen: J.C.B Mohr, 1949), pp. 41-2.
- 10 Jacob Strieder, *Jacob Fugger the Rich*, (New York: The Adelphi Company, 1931), p. 34.
- 11 Strieder, p. 35.
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- 14 Strieder, p. 113.
- 15 Strieder, p. 112.
- 16 Von Poelnitz, *Jakob Fugger*, p. 77.
- 17 Von Poelnitz, *Jakob Fugger*, p. 74.
- 18 Von Poelnitz, *Jakob Fugger*, pp. 53-4.
- 19 Von Poelnitz, *Jakob Fugger*, p. 48.
- 20 Von Poelnitz, *Jakob Fugger*, p. 100.
- 21 Von Poelnitz, *Jakob Fugger*, p. 69.
- 22 Von Poelnitz, *Jakob Fugger*, p. 178.
- 23 Von Poelnitz, *Jakob Fugger*, pp. 75-6.
- 24 Von Poelnitz, *Jakob Fugger*, p. 81.
- 25 Von Poelnitz, *Jakob Fugger*, p. 110.
- 26 Von Poelnitz, *Jakob Fugger*, p. 111.
- 27 Von Poelnitz, *Jakob Fugger*, p. 133.
- 28 Von Poelnitz, *Jakob Fugger*, p. 129.

Chapter Twenty-Three

The Fuggers and the Indulgence Trade

On January 9, 1498 Jakob Fugger, who had achieved the then advanced age of almost 40 years old, married the spinster Sybille Artzt.¹ Sibylle was beautiful but barren. Their marriage was without issue. This may or may not have contributed to a palpable sense of coldness between the spouses that survives in the account of his life. Sibylle outlived Jakob, but she was not at his deathbed. She remarried six weeks after his death. Gold, not love, seems to have been the basis of this relationship. As Jakob the devout Catholic knew, money is sterile. Money seems to have led to sterility in his marriage. And sterility seems to have led to an obsessive desire to control every aspect of the Fugger family's firm.

Four years after his marriage, Jakob, the youngest of the Fugger brothers, reorganized the family firm, making himself its undisputed leader. Under Jakob's leadership a rural stubbornness began to assert itself, something which held the firm and its belongings together no matter what and never let anything new have a say in anything.² Even if on paper the elder brothers had full administrative powers, by inaugurating the new company contract of December 23, 1502, Jakob had already chosen the way to creating his commercial kingdom.

After taking control of his family's firm, Jakob went to work on the imperial finance ministry, making it clear to treasurers like Jacob Villingier and Cardinal Mattaeus Lang that anyone who wanted money from the crown had to go through Fugger to get it.³ In spite of his ambition, Jakob himself put no value on the visible signs of success. In the year during which he made his decisive breakthrough into high finance, he carried himself no more ostentatiously than when he left Herrieden. He never changed his attitude even after he became the richest man in the world.

But the family was moving up in the world nonetheless. Jakob had no children, but he could show off his wealth and status by arranging sumptuous weddings for his nieces and nephews. The marriage of Ulrich's daughter Ursula with the Knight Philip von Stein zu Jettingen offered an opportunity to get even for previous humiliations at the hands of the cash poor petty aristocracy.⁴ The spectators marveled at her jewelry, stared at the pearl embroidery of her gown, and admired how the four magnificent gold chains which Ursula wore around her neck sparkled in the sun. Like the church ceremony, the civil ceremony was performed with equal pomp.

The wedding cost almost ten times what the country squires normally paid for their children's weddings. Many in fact felt that it was too much of a good thing.

The grumbling ceased, however, when the news spread that the emperor himself asked that the wedding take place during one of his visits to the imperial city. If no one had paid attention to the unassuming demeanor of the Augsburg financier until then, the wedding of his niece Ursula made clear in no uncertain terms that Jakob was now the empire's chief financier. Before long it would become difficult to decide whether the king's right-hand man worked at the pleasure of his master, or whether the prince was doing the bidding of a secret ruler.⁵ If Maximilian wanted to declare a crusade against the danger posed by the Turks, he had to clear it first with Fugger. The same was true of any other move that would extend the power of the Habsburgs into the Balkans. Nothing was going to happen without Jakob's okay.⁶

Artzt, Sybille's maiden name, means physician in German and is the Germanification of Medici. The Latin phrase "*nomen est omen*" would seem to apply here because when Jakob married Sybille, the Fuggers succeeded the Medici as the premier banking family in Europe. By taking over what the Medici had established, the Fuggers inherited a pan-European financial network that had the potential of creating enormous wealth. It also allowed them to engage in financial deals whose economies of scale transcended the confining borders of the German principalities which made up the Holy Roman Empire. The Italian merchants, with their trading counters in all the great European centers, furnished ready and satisfactory instruments for the collection and transfer of all the Church's foreign revenues. It was inevitable that these merchants should also supply loans to the pope in times of financial stress.

In spite of their many connections with the Medici, the Fuggers never felt comfortable with the spiritual, literary or artistic innovations of the Renaissance or the humanist attitudes of Medician lifestyle.⁸ Sensing that the vacuum created by the fall of the Medici had created an opportunity, Jakob began a strenuous campaign to establish a presence in Rome. With cold-blooded calculation, Fugger saw in the same Church he supported as a pious man of the late Middle Ages, an organization which possessed untapped financial potential.⁹

After the death of Pope Alexander VI in August 1503 and the papacy of Pius III which lasted only a few weeks, Johann Zink worked under Julius II (1503-1513) energetically and successfully in expanding the Fugger's presence in the Curia.¹⁰ Jakob exploited every opportunity to make a buck from profit-seeking high-placed prelates. Why should Swabian banks be denied the opportunity to do business with the Curia which had made Ital-

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ian banks rich over the centuries? The groundwork for Zink's efforts had been laid seven years earlier, when the battle over the reform of morals in Florence (and the rest of the Church) was still undecided.

In the spring of 1496, Jakob gained the confidence of Junker Melchior Cardinal von Meckau, the prince bishop of Brixen, and from then on the enormous amounts of capital which only a cardinal could accumulate in the late Renaissance Church began pouring into Fugger's coffers in exchange for a 10 percent return. Thus, the Fuggers became bankers to both the pope and the emperor, but they also became involved with rich prelates like von Meckau, who unlike the Habsburgs, had money to invest from years of profiting from his many benefices. The Fuggers were Germans and thus outsiders to the narrow world of oligarchic families that made up the Curia, and this made them all the more attractive to Italian cardinals who had money to invest but were unwilling to admit publicly that they were earning usurious returns on their capital. Under these circumstances, it seemed appropriate for the high Curial officials to take a German into their confidence. Indiscretions were less to be feared from him than from the Italian money managers directly dependent on the Curia.¹¹

Once it became clear to Cardinal von Meckau that the Fuggers could guarantee a good return on his investment, the prince bishop recommended the Augburger banker to other members of the hierarchy when his influence at Rome was at its apogee, and as a result the Fugger bank became a privileged money manager for the college of cardinals.¹² Jakob's nephew and successor as head of the Fugger firm, Anton, negotiated the contracts in Rome. From this point on, the college of cardinals became a major source of capital for the Fuggers' burgeoning enterprises. The only thing which explains their enormous increase in capital was contact with Melchior von Meckau. It was impossible to earn sums of this magnitude from the trade in Swabian fustian, or in the Roman benefice market, or even in the spice trade. Other attempts, such as launching an operation in Antwerp, demanded significant investment. The bright idea of circumventing liquidity shortages and the prohibition on taking interest by secretly borrowing money from high church officials came from Jakob, and it was was the thing that turned necessity into gain. Jakob stole a march on his competitors by enlisting the help of the elector bishop of Brixen Melchior von Mekau in this business. In doing this significant aspects of Church law were circumvented.¹³

Almost overnight the ducats of ecclesial potentates increased the available capital of the firm well beyond the economic capacity of other Swabian firms. This discrete accumulation of capital enabled the Fuggers to rise to a pre-eminent position in the world of international finance, but it would also all but guarantee that the Church would never resolve the usury issue.

The conflict of interest was simply too great. It was easier to punish the messenger who brought the bad news. The fate which Savonarola suffered in Florence would have far-reaching consequences for both capitalism and the Catholic Church, which was simultaneously both the main opponent of usury as well as one of the main beneficiaries of the usury at the heart of nascent capitalism in the 16th century.

The relationship between Fugger and von Meckau would thrive because the prince bishop did not feel bound to give an account of his dealings, nor could he have done this without exposing his involvement in usurious dealings prohibited by Church law.¹⁴ With every expansion of the influence of the Fuggers, with every increase in their liquidity, Meckau could count on higher returns on his investments.¹⁵ The more Meckau could be assured that his own money was that much more secure under the Fuggers' care, the more other cardinals followed his example, and put their money into the leading German bank in Rome and at the same time gave the bank every possible advantage. The world admired the rich Fugger without perceiving that behind him stood a prince of the Church whose financial means put the Fugger fortune to shame.¹⁶

Then Meckau died suddenly, and the Fuggers were plunged into the biggest financial crisis of their career. The Brixner investments made up 75 percent of the entire capital which the Fugger firm possessed. If Cardinal von Meckau were so disposed, he could have ruined the Fugger firm by withdrawing his capital, but like other cardinals, von Meckau decided not to threaten the goose which laid golden eggs. His death, however, precipitated the crisis which he chose not to inflict while still alive. Like the Medici, von Meckau was loathe to write a will which would have exposed his financial malefactions, and so the prince bishop, dying intestate, set off a chain of financial wrangling between the papacy, the empire, the Curia and the Fuggers which would extend for years into the future.

After the Roman Curia and the bishopric of Brixen laid claims on the estate of Melchior von Meckau, the threat of bankruptcy hung over the firm like the sword of Damocles because the Fuggers were not in a position to pay back the enormous sums that Meckau had deposited with the firm. Jakob Fugger mastered the situation by involving influential advocates as well as by his own skill in dragging out the negotiations until the desired outcome was achieved. Ultimately, the issue was resolved when the Curia transferred Meckau's estate to the emperor, and he agreed to be paid by the Fuggers in cloth rather than cash with interest.¹⁷

Once again the Fuggers' relationship to the Habsburgs proved mutually beneficial. In exchange for the loans he received from the Fuggers, Maximilian had to cover up the extent to which the death of the cardinal had put the Fuggers in financial danger.¹⁸ In August of 1509, the Augsburger

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firm received the happy news that an agreement had been reached between Emperor Maximilian and Pope Julius II, according to which the Curia renounced their claims (on Meckau's estate) and handed them over to the Habsburgs.¹⁹ The financial situation of the firm recovered in the last third of the year, so that they could view the drop in debt with significant relief.²⁰

In 1507, the year in which the firm became an unabashed commercial monarchy under Jakob's direction, Pope Julius announced an indulgence in order to finance the construction of St. Peter's in Rome, and the Fuggers took over the collection of the indulgence money in Bohemia, Silesia, Hungary, and Poland. The Church taught that good works could remit the punishment due in purgatory for sins which had been committed during this life but forgiven. Since the 15th century, a growing need for the faithful in regard to the salvation of their souls had created a steep demand for indulgences, while the church saw in this welcome instrument a way of financing welfare agencies, church construction and other projects.²²

Becoming papal bankers meant becoming involved in the indulgence trade, the Fuggers had been involved for years in transferring money from Scandinavia for the Apostolic chamber.²³ According to Strieder, "From about 1502, the Fuggers also began to carry on an intensive business in the transfer from Germany to Rome of the money arising out of fees for indulgences. Here also Jakob Fugger achieved a profitable monopoly."²⁴

Jakob Fugger was a Catholic of more than usual piety, but piety is no substitute for a mind capable of coming up with a coherent picture of the ramifications of Catholic moral teaching, especially when it comes to economic issues. This was unfortunately beyond Jakob Fuggers' ability. To his credit, Jakob never claimed to be a proponent of abstract-theoretical considerations.²⁵ No other man of his age had been able to comprehend the multiplicity of the world of his day and the complex interrelationships between politics, economics and religion more completely than Jakob Fugger. No one knew how to exploit the situation better than Jakob Fugger either.²⁶ Yet no man was more blind to the religious and political consequences which flowed from his economic decisions. The same man, who contributed significantly to the toppling of the old order, passed by the big questions of his age with eyes closed. Jakob's element was the world of palpable realities, the cosmos of gulden and pounds, and he could have cared less about the quarrels of theologians, professors, and literati.²⁷ Businessmen from all over the world, but especially in Italy, tried to capitalize on this sad situation. Why then should a Swabian firm not earn its own share? In the final analysis, the Fuggers attempted to monopolize the Roman indulgence business in Germany insofar as it concerned the transfer of money payments for papal licenses, much as they had monopolized the copper trade.

Of course a man who was inclined to view everything as an object or

tool of commercial use was going to miss certain imponderable values of life which were otherwise held in esteem in the imperial cities of Germany with their keen sense of the common good. The German reverence for tradition and faith collapsed under the assault of the cool spirit of Roman economic rationalism and the blinding light of their economic thought, which ruled the Italian banking world and would soon make its way to Augsburg.

In doing this, Fugger helped bring about the destruction of Christendom. It can hardly be denied that Jakob bore a certain culpability, when his branch manager, in his name, facilitated the increasing monetization of indulgence trade in Germany in the late Middle Ages. The Fuggers were clairvoyant when it came to everything commercial but deaf when it came to the atmospheric disturbances which were disrupting the mood in Church-state relations. As a result, they failed to discern the spiritual discontent sweeping through Europe.²⁸ Soon it became obvious how the effect of their bourgeois commercial activity was going to bring about a new social order in Europe.²⁹ Piety was no substitute for consistency; it was certainly no substitute for a coherent worldview which integrated financial dealings into the moral law.

Maximilian was no help when it came to understanding the transformations which were sweeping through Europe, largely because of the Fuggers' financial innovations. Maximilian tended to see the relations between states in dynastic or war-like terms, but His Majesty was clueless when it came to economic issues.³⁰ Maximilian could only get used to the advance of mercantile thought, and the way of acting that went with it, with the utmost difficulty.³¹ But his weakness only made him more attractive to his contemporaries. If Jakob was calculating, Maximilian was his opposite because of the frankness of his likes and dislikes, and because of the warm-blooded nature of his being, which always remained knightly and courtly and never calculating.³²

Since opposites attract, Jakob and Maximilian found themselves drawn to each other in a way that would ultimately prove detrimental to both parties. Fugger money financed Maximilian's megalomania, which decreed that he should become emperor. Getting Maximilian made Kaiser became a test of power for the firm, as well as a badge of honor for his house.³³ Once the firm decided to bankroll Maximilian's political aspirations, they found themselves at the top of a very slippery slope. The firm had heavily burdened itself with financing the emperor's crown for Maximilian. Once they started down this road, the firm couldn't be content with half measures. That sort of thing was foreign to Jakob's nature. As a result, financed by the deposits of the cardinal of Brixen which made up the lion's share of the company's capital, he found himself willing to fund Maximilian's trip to Rome.³⁴ Before long Fugger's money began to evaporate as loans to princes

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had done in the past. Huge amounts of Fugger money got absorbed like a sponge by old loans and the interest that went with them.³⁵

Maximilian tried to compensate the Fuggers for their financial losses by showering honors on them. On May 8, 1511, Jakob Fugger was raised to the aristocracy of the Holy Roman Empire.³⁶ Now the branch managers of the Fugger offices could open the Indulgence deposit boxes with their own keys, empty them, and transfer the money to Rome. Pilfering almost certainly occurred.³⁷ But, more importantly, Maximilian could now place even greater demands on Fugger's capital. The silent omnipresence of big capital, the magic wand whereby Fugger turned copper into gold, proved irresistible to the crown. In the meantime, His Majesty sank silently into dependence on his loyal servant.³⁸ Renewed access to Fugger money gave new impetus to Maximilian's megalomania. Now in addition to being emperor, Maximilian wanted to be pope. The plan was grotesquely far-fetched, but it too revolved around access to Fugger money, and the debased state of a Church in which simony was rampant.

If the Medici could purchase the papacy for Lorenzo's son, Leo X, then why couldn't the Habsburgs buy it with Fugger money? The Fuggers were after all the successors to the Medici. The main issue at the conclave was the disposition of the cardinals. In order to influence them the crown needed somewhere between 200,000 and 300,000 ducats. And who other than the Fuggers were to provide such a sum?³⁹ Sums like this were unheard of in the history of both Western capitalism and the Church.⁴⁰ The emperor remained convinced that sums like that could only be lent, negotiated, ordered and agreed upon by the Fugger bank in Rome.

In the end, Maximilian's plan to become pope came to nothing. But for those with eyes to see, it was a warning of things to come. Jakob wasn't dominated by the foolish craving for titles so often found among the nouveaux riches, or hedonism nor the senseless accumulation of immeasurable riches.⁴¹ But he proved himself powerless when it came to resisting Maximilian's cravings for the same sort of thing. The financial overburdening of the emperor, whose bankruptcy would have brought the ruin of the Augsburger in its wake, was now distinctly possible.

Help came from the unlikely quarter of England in the form of the Tudor subsidies which Henry VIII was paying the emperor to harass the French. No one but the emperor was going to receive a subsidy of this magnitude, and no one but the Fuggers could handle the financial arrangements which oversaw the transmission of the gold from Antwerp to the Habsburg coffers in Innsbruck. It was a symbiotic relationship that functioned spectacularly when it worked, but the splendor which it managed and enabled was living on borrowed time because of the inexorable nature of compound interest.

On July 17, 1514, Jakob Fugger was elevated to a count of the empire. No German businessman had ever received such an honor. And before the year was over the Fugger firm concluded a metal contract with the crown whose terms affirmed in law their monopoly position.⁴² Unfortunately, every exaltation of the lender was a sign of distress on the part of the borrower. The merchant prince could not have deceived himself about the background to this move. It all happened purely out of scarcely concealed financial embarrassment. Maximilian, the last knight, had sunken to the position of a petitioner. Now that the keys to the empire's natural resources had ended up in the hands of the firm, the prince was more dependent on them than they were on him.

Jakob could have dedicated himself to a life of hedonism and debauchery, but he didn't. When Fugger took possession of Kirchberg and Weisenhorn, the lands he had been granted when Maximilian raised him to the nobility, he left the merchant class into which he had been born behind, and yet he never achieved another circle to replace the one he had left. In becoming the world's richest man, he became a lonely man. Toiling without ceasing, condemned or celebrated like fate itself, he stepped outside the round of daily life and began to live according to his own laws.⁴³ Jakob would write his own epitaph when he remarked to George of Saxony: "Many in the world are hostile to me. They say I am rich. I am rich by God's grace, without injury to any man."⁴⁴

Toward the end of his life, Jakob said that he wanted to make money as long as he was able to do so. This was taken as proof of his avarice. The fact that he built the worker housing in Augsburg known as the Fuggerei could be taken as proof of the charity which is the opposite of greed. It could be taken as an example of the noblesse oblige that he inherited with his titles.

During the Spring of 1514 Jakob decided to build a quarter of well-built rowhouses near the Augsburg city hall which would provide shelter for the working poor who had suffered social dislocation as the result of the economic forces which he had set in motion. No one knows when the merchant lord first entertained the idea of building a housing quarter composed of well-built row houses that seemed like a little city all of its own for the impoverished fellow citizens of his native city. At the very latest the idea began to take form in the spring of 1514.

There were precedents for this sort of thing in other Catholic cities which sprang up during the commercial boom of the high Middle Ages. The Beguinenhof in Brugge was one example, but the architecture of the houses themselves, designed by the well-known architect Thomas Krebs, was strikingly new. The idea that the worker and his family should have a house of their own was unprecedented. From the time of Charlemagne and the founding of the Holy Roman Empire, the worker lived in the Lord's

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castle, which is to say in an apartment in a very large building. The Fuggerei, whose name did not originate with Jakob and only entered common usage after his day, was radically new in its conception because it honored labor by providing a decent dwelling for the laborer, who now had a dwelling that respected the individual existence of the worker's family while at the same time integrating that family into a community of fellow workers.

Fugger's architect, Thomas Krebs, tried to come up with a cross between the Gothic family house and the multi-story Renaissance building. But that's hardly important compared with the new self-conscious housing culture implemented here as functional two and three room apartments, each with its own private entrance on the street and its own kitchen, something which became the model of tasteful and modest home life. The message of these buildings was that the worker had a safe and secure place for himself and, more importantly, his family in the social order. The fact that the Fuggerei was built in the center of town near the Augsburg city hall gave added emphasis to this assertion.

If the architectural culmination of economic development in Florence was the monumental fortress known as the Palazzo Strozzi, whose owner died before he could move in, the correlative in Augsburg was the Fuggerei. Instead of a Renaissance monument to the futility of usury, the Fuggerei created a housing development which was a tribute to the Germanic-Christian tradition and its valuation of human labor as the source of all value by giving the worker a decent place to live.

Fugger's collaboration with Krebs created a monument which brought him lasting fame, not simply as a financier, who for one moment in time was the world's richest man. The Fuggerei became a monument to the Germanic-Christian appreciation of labor, by providing accommodations for the laborer which broke with the irrationality of the medieval city plan and in its place erected a rational order, which incorporated modern hygiene, modern health and social arrangements. It was also an act of unprecedented generosity in keeping with the legacy of the man who gave each family with children living in the Fuggerei a Rhenish gold gulden, and a half gold gulden to families without children.

By building the Fuggerei, Jakob revealed himself as a personality, who even after achieving financial success never forgot his roots in the middle class. The Fuggerei's relationship to the rural past was gone, but the Fuggerei, which honored labor by providing decent housing for the laborer, used labor to integrate social extremes into social unity. The financier used his money to bring about a unifying social environment that included the opposites of the economic spectrum in Augsburg.

The Florentines, on the other hand, used their wealth to clear the impoverished working class out of the center of town so that they could build

their magnificent yet sterile palazzi. Fugger was the heir to both traditions; he was a man who unwittingly wrecked the world he sought to preserve by his financial wheeling and dealing, but in this instance he brought together the toughness of the financier with the goodness of the philanthropist. Jakob wasn't interested in taking care of beggars, according to the ideal proposed by medieval saints. He was untouched by any temptation to imitate the son of the cloth merchant from Assisi. His idea was to take his fellow citizens who had fallen through no fault of their own under the wheels of the economic revolution which had taken place at the turn of the century and reintegrate them—with sobriety and careful, considered tact—as active members into the fabric of civic life.⁴⁵

Like Cosimo de Medici before him, who endowed the restoration of San Marco as atonement for his sins, Jakob may have been moved by guilt. Whether the Fuggerei was inspired by guilt or charity, the contradictions in the man who paid for it remained unresolved. Jakob Fugger was in both his strengths and weaknesses a typical, if at the same time above normal, representative of those who in spite of revolutionary innovations in the economic sphere still clung tenaciously to the spiritual order of the Middle Ages.⁴⁶ No matter how much money he made, Jakob never lost sight of the four last things.

Endnotes

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Chapter Twenty-Four

Eck and the Usury Debate

The Church of the High Renaissance was hopelessly addicted to living beyond its means. As a result its officials were equally addicted to borrowing money. In 1484 Pope Innocent VIII was forced to pawn his tiara for 100,000 ducats.¹ As should have been apparent at the time, the interest payments which accrued on loans only aggravated the financial short falls that made the borrowing necessary in the first place. As a result the Church was constantly looking for new sources of income. One of those new sources was the “sale” of indulgences. Technically speaking, the faithful did not buy the remission of the temporal punishment due to sins already forgiven; they offered alms to the Church, which in turn granted the indulgence, but the urgency of the Church’s need, coupled with the efficiency which the Fuggers demonstrated in collecting the funds gave the impression that the Church had turned the salvation of souls into a business, and in particular into a business that was hurting the German nation by draining gold from its coffers.

As in Italy, the rise of commerce in Germany resurrected attacks on usury. The attacks were mounted by humanist literati like Sebastian Brant, whose epic poem *Das Narrenschiff* (Ship of Fools) was published in 1493. Brant described the pressure which usury was bringing to bear in German-speaking lands by referring to Christian usurers as “Christian Jews,” practicing the art of “the Jewish cut-throat.” Brant, like many other Christian polemicists claimed that the Jews as moneylenders were oftentimes less reprehensible and less cut-throat than their Christian counterparts. “The Christian-Jews drove them out. They practice the art of the Jewish cut throat. And all justice and laws are silent over it.”

Under Julius’ successor, Leo X, scion of the House of Medici who reigned from 1513 to 1521, the indulgence business moved further toward center stage in the Roman dealings of the Fuggers. In 1514, the Medici pope granted a new indulgence for the dioceses of Mainz and Magdeburg, for the high donation church of Mainz, Magdeburg and Halberstadt as well as the count of Brandenburg.

In 1514 Jakob Fugger had reached the pinnacle of financial power in the Holy Roman Empire. Maximilian had just knighted Jakob as the infallible

sign that he was hopelessly in debt and therefore totally in his power. As a result, Fugger could dictate whatever terms he desired for the extraction of mineral rights and expect to have them approved. In defiance of a number of imperial ordinances and decisions, Maximilian had to approve, out of financial necessity, the cartel which the Fuggers were making with the Hochstetters. On October 30, 1514, he concluded a silver and copper contract with their combine. With that contract the way was opened for the monopolistic exploitation of the upper German metal industry.

Then a small cloud appeared on the horizon. During the first decade of the 16th century, complaints against usury began to be heard again. Economics forced Fugger into the biggest contest of his life, a multi-front battle, at once against the emperor and the pope, but at the same time against the elements in Church and society, public opinion and the nation who were succumbing to the lure of revolution. It would be a worthy endgame for a life which was unique in its nonstop creativity.²

As of 1500, the *status questionis* in the yet to be invented science of economics was still determined by thinkers like Duns Scotus and Bernardine of Siena, both of whom included commerce and money changing under the heading of usury. Their condemnation of these practices was indisputable, just as indisputable as the fact that the banking practices of the Fuggers violated these norms. According to Strieder,

The minds of men were still dominated by an ideal of Christian cooperation, rather than one of economic individualism. The medieval system of economic ethics, formulated in the 13th century by St. Thomas Aquinas. . . rested entirely upon the prohibition of the unrestrained pursuit of profit and upon the prohibition of free competition, and a price policy dictated by the interests of the entrepreneur alone. At the basis of the medieval economic philosophy was the idea of a sufficient livelihood, the theory that the individual should strive for an income appropriate to his class but not for much more. . . . The medieval town and the medieval state tried to carry out this economico-ethical system by means of guild regulation. . . . What can nourish two should not be absorbed by one.³

The crucial issue was usury, which is to say, taking interest on a loan. Devout Catholic capitalists like Jakob Fugger, no matter how much his genius could allow him to exploit the economic situation of his day, could see no way out of what seemed like an impossible situation. If he followed the Church's position on usury, he condemned himself to trying to do business without extending credit. By the beginning of the 16th century, business without credit was simply impossible, but business with credit was immoral. Cities like Augsburg were caught in the middle.

Augsburg was considered the most progressive German town of the Fugger era in her business ethics and economic policy. Unlike Basel, where the guild idea prevailed over the concept of individual freedom, Augsburg

was open to innovations in the financial sphere. But unlike the Renaissance city-states of Italy, the German merchants of Augsburg could not shake off their sense that labor was the primary source of value.

Then as now academics were willing to sell their services to the rich and justify the excesses of free market capitalism. Then their proponent was the Humanist Dr. Konrad Peutinger, who became the exponent of capitalism according to the Augsburg School, which meant advocating:

the freedom of trading companies, for freedom in the making of prices, and for the toleration of capitalistic monopolies and cartels. His attitude, in direct opposition to medieval economic ethics in the question of price formation, for example, is clearly expressed in the following sentence: "Every merchant is free to sell his wares as dear as he can and chooses. In so doing, he does not sin against canon law; neither is he guilty of antisocial conduct. For it happens often enough that merchants, to their injury, are forced to sell their wares cheaper than they bought them."⁴

This attempt to justify what had been classified as immoral behavior came about as the result of collaboration between Peutinger, "the modern jurist who, in the spirit of the Roman law, in the spirit of pagan individualism, turned his back on the essential principle of the German-Christian social organization (solidarity)" and Jakob Fugger, the "merchant, who would not tolerate the setting of limits in the interests of altruism to his desire for the acquisition of profits, and to his outstanding entrepreneurship."⁵

When the Augsburg Council came out for "the complete freedom of its entrepreneurs from any restraint,"⁶ the Fuggers began to feel that realignment of theory and practice, via Peutinger, was possible, perhaps by way of a clever analysis of the theory of the just price which Aquinas had proposed. The Fuggers were intrigued by the possibility of using Thomism as a way of claiming that the new business practices which they had helped create did not violate the Church's ban on usury because the uproar which the Mendicants had raised against usury had created a situation which not even the richest man in southern Germany could ignore.

Fugger could not afford to thumb his nose at the Mendicants. The richest man in Swabia found that it was no longer easy to assert his position since popular preachers like Geiler von Kaisersberg and Sebastian Brant had taken to attacking monopoly and usury.⁷ His usual method of calming the Mendicant opposition, by large donations to their houses, could deflect the intensity of their opposition for a time but it could not overcome it completely or lay it to rest. The conflict between Catholic theory and the practice of Catholic businessmen like the Fuggers could no longer be avoided. It cried out for an intellectual resolution.⁸

In Italy the situation was significantly different. Since the 14th century, Florentine authorities had recognized that interest on loans was licit if kept

within certain bounds. It was considered indispensable, although Dante had condemned the usurers of his generation to hell. The situation was similar in Venice, Genoa, Milan, and certainly in Rome, where Pius II, the pope of the humanist movement, had himself introduced the monopolistic organization of the alum trade.

Misunderstanding, however, fanned the glowing coals into dangerous conflagration. That conflagration would destroy the medieval world over the course of two generations. The fact that practically no one comprehended the magnitude of this change in its early stages, gives some indication of its historical significance.

When Bernhard Adelmann, a member of a competing German firm, encouraged his friend Wilibald Pirkheimer to translate Plutarch's commentary "*De usura vitanda*," Pirkheimer dedicated the tract to Adelmann as a "declared opponent of usury." The implication was clear. When Oecolampadius followed suit with his own attack on usury, it became even clearer that a shot had been fired across the bow of the Swabian merchants in general and the Fuggers in particular.

The response needed to come from an equally famous pen. When the rebuttal offered by Sebastian Ilseung, a law professor who was the son of the Augsburg commercial class and was considered a jurist and politician of some standing, failed to do the job, Konrad Peutinger, a humanist and advisor to the Fugger family, suggested Johannes Eck, one of the great minds of the day and an academic who would be known to posterity as the man who debated Luther.

In 1514, Fugger asked Peutinger and Eck to defend taking five percent interest on loans and to come up with a new economic rationale consistent with both traditional Catholic teaching on usury and contemporary business praxis. Noonan claims that "Eck is of great importance to the history of usury, for he made the triple contract known both to all the learned world of Europe and to the merchant bankers of his time."⁹ This rationale was urgently needed now that the Fuggers had become the bankers to the Holy See. In the spring of 1514 Eck gave his first lecture on economics at the University of Ingolstadt. Eck brought up the triple contract in his disputation. The crucial issue was risk.

In 1403, Ridolfi claimed that it was licit to sell risk¹⁰ and St. Antonino concurred in defending the practice of buying insurance as a way of putting a price on risk. But until 1485, no one had "related insurance to investment contracts in such a way that the effect upon the usury theory was evident."¹¹ Citing Angelus, Eck claimed that "Money normally stands in a partnership at the peril of the investor. . . but the risk may be transferred at a just price."¹² According to Eck, the price of risk was five percent, a sum which could be "justly paid for 'the advantage of the money,' always under-

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stood of course, that such a profit can only be made on money in the form of a partnership and not in the form of a loan."³³

Eck's argument seems to have swept the day. The merchants were jubilant. Cajetan, the intellectual heir of St. Thomas Aquinas, seemed to agree, offering opposition which was "of a very weak and hesitant character."³⁴ The learned were dismayed at the publicity and claimed that it touched on the interest question only tangentially. Nevertheless, as a result of its close connection to the usury question it offered some relief for the beleaguered Augsburg firms.

Peutinger now felt vindicated in having proposed Eck as Fugger's champion, but therein lay the undoing of Eck's intellectual edifice. Eck got too specific in his defense of the five percent solution when he brought up the example of Augsburg, whose merchants he compared to Cosimo de Medici. Eck linked the Fuggers and the Medici out of polite deference to his patron's family and as a way of placing them in a favorable light to the Medici-dominated Curia, but the gesture ultimately backfired because in the popular mind this sort of flattery diminished the effect of Eck's presentation and gave the impression that he said what he said because he was in the pay of the Fuggers. As a result Fugger and Eck had to abandon their initial intention of holding a disputation at Ingolstadt.

Perhaps hoping that the connection between the financier and his theologian would be less well known in Italy, Eck set off for Bologna in June 1515 to take part in the biggest disputation of his life. Instead of taking the direct route south, Professor Eck stopped first in Augsburg where he presumably received tactical instructions in the house on the Weinmarkt and Rindermarkt. His speaking tour, which was supposed to be a triumphal procession for upper German capital, ended up being overshadowed by Eck's connection to the Fuggers. In both Innsbruck and Brixen he was met by agents of the firm. The same thing occurred in Bologna, which Eck reached in the first week of July 1515, where the unseen hand of Jakob was noticeable. Both the scenery and the majority of the participants were Italian and local Bolognese, but the direction of the academic presentation was pure Fugger. The professor from Ingolstadt won an easy victory. The victory, however, possessed doubtful weight. The value of the Disputation of Bologna is something only Jakob could evaluate. Although he was little interested in economic issues, the merchant pulled the strings from behind the scenes. He had accomplished his goal. Eck's victory over the Church's opposition to interest bode well. From Fugger's point of view the results of his consultation could not have been better. Taken together and combined with the triumph of the Congress of Vienna, they gave Jakob Fugger unimaginable power as the end of 1515 drew near. Yet in spite of his new found power, Fugger remained a man divided against himself as the two tectonic

plates of his nature—his medieval piety and his modern economics—continued to grind against each other.¹⁵

Noonan claims that as a result of Eck's victory in Bologna the Church accepted the five percent solution, but the more he tries to support his thesis the less convincing it becomes. The Church had always accepted the fact that certain extrinsic titles enabled a lender to legitimately ask for a return that was more than the nominal value of the sum which he had lent. In order to qualify for compensation over and above the amount loaned, the creditor had to be exposed to "a real and extraordinary danger" of loss.¹⁶

Alphonsus Liguori. . . claims. . . that the danger must be not only "*verum*" and "*extraordinarium*," but even a "*periculum probabiliter imminens*." Then and only then can it be said of the money which is loaned that it loses in value and that the creditor suffers a loss the moment the money is loaned. It was in that nature of things that this title to interest could arise especially in loans made for trading ventures.¹⁷

The creditor was entitled to compensation if he "suffered or lost what he could have gained."¹⁸ Two of the most commonly recognized titles were *damnum emergens* and *lucrum cessans*. The most universally accepted extrinsic title was *damnum emergens*, or an actual loss as a result of the loan. According to Pesch,

Damnum emergens is loss of some real value; *lucrum cessans* represents future value, which is uncertain, "as anything in the future contains an element of uncertainty, given the human condition." . . . The *damnum emergens* is in fact the loss of some real value which the lender now has in his possession, and which is definitely establishable and capable of being appraised. The *lucrum cessans*, being the object of the surrender of a chance to make a profit, generally represents future value which is in a certain respect conditional as to its actual realization. In other words, it still appears as uncertain, as anything in the future contains an element of uncertainty, given the human condition. . . . What is required is that by the loan itself, the lender is deprived of an actual, not an imagined chance for using the money for an objective possibility that would bring him gain. . . . If the creditor had other money available for the prospective transaction then he would have had no claim to be reimbursed.¹⁹

Far from ending the discussion, Eck's defense of the five percent solution opened him to charges of sophistry and the claim that the triple contract was "a roundabout way of legitimating *lucrum cessans*."²⁰ In his account of the Church's attempt to solve the usury problem, Noonan does little to calm the fears of those who felt that sophistry carried the day. Drawing on his legal background, Noonan turns the triple contract into the financial equivalent of *Brown v. School Board*: "It is a legal fiction reaching a sound practical result."²¹ Noonan then overstates the claims which Eck's defense of the five percent solution allows:

The implications for the scholastic theory of usury proper were as profound as

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the practical consequences were widespread. Acceptance of the contract meant the definitive rejection of the theses that any temporary, riskless transfer of property was usury; that the incidence of risk was the criterion of ownership; that money was sterile and could not bring a reward to itself. . . . The triple contract established definitively that a riskless transfer need not be usury; it destroyed the use of risk as the index of ownership by the usury theorists; and it made dominant for usury theory the concept of capital which partnership analysis had always implied.²²

At this point, Noonan's book mutates from what could have been a scholarly analysis into a tendentious tract whose purpose is both a justification of Americanism and a justification for a change in the Church's teaching on contraception, which is not supported by the texts which Noonan uses to support his argument. Noonan's own account of subsequent events belies his reading of the history of usury as well as his claim that the Church changed her teaching on usury.

Whatever came out of subsequent meditation on the issue, the issue was certainly not resolved by the time of Eck's disputation in Bologna, and it wasn't resolved then because economic changes of the sort the Fuggers unleashed had set political forces in motion which neither Fugger nor the Church were able to control. Had the reforms which Savonarola had instituted in Florence taken root there; had they been allowed time to spread from there throughout Christendom like leaven through a lump of dough, then the Church might have avoided one of the great catastrophes of her long history. The usury question got resolved instead by *force majeure* or, as the Germans would say, by "*hoehere Gewalt*," and the main instrument of that higher violence was a German knight by the name of Ulrich von Hutten.

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Chapter Twenty-Five

Ulrich von Hutten and the German Reaction

In February 1514 Uriel von Gemmingen, the archbishop of Mainz died. Four weeks to the day later, Albrecht, brother of Joachim the Elector bishop of Brandenburg, succeeded Uriel as archbishop of Mainz. Albrecht had only been ordained a priest in 1513 but in that short period of time, he began acquiring benefices at a speed which had more to do with his family connections than with his tender age. He was 24 years old at the time.

The rapid rise of Joachim and his younger brother Albrecht in ecclesial circles in Germany was not without difficulties. Every time a new bishop took over an important see like Mainz, money had to change hands. If a dispensation was necessary, more money was needed in addition to the so-called Pallium fee. These fees were not inconsiderable. In fact, they often equaled the yearly income of an entire diocese, which is why they were called Annaten. If one took into account the cost of sending an embassy to Rome, then we're talking about 20,000 gulden per dispensation.¹

The situation in Mainz was further complicated by the fact the Joachim and Albrecht were brothers and members of the seven-member electoral college which chose the emperor of the Holy Roman Empire. That conflict of interest would necessitate more haggling and more money changing hands in Rome.

In the end, Rome demanded not only 20,000 gulden pallium money from Mainz, but another 10,000 gulden fine to pay for the dispensation which would allow for the double office of archbishop. This amount could not be repaid from tax revenues from the Kurfurstentum; if the bishop had tried to do that, an open rebellion would have been the result.

In his moment of need, Albrecht did as so many other cardinals had done. He turned to the Fugger family, and they, no strangers in this sort of business, lent him the money he needed to finance his election. In the course of the difficult negotiations in Rome Albrecht's debt to the Fuggers grew to 48,000 Gulden. The loan was repayable over eight years at five percent interest, but Albrecht had to offer something as collateral. Fortunately, shortly before Albrecht needed to borrow money to finance his accession to the bishop's chair in Mainz, Pope Julius II had created a new source of funds in Rome. In order to finance the building of St. Peter's, Julius offered

a new indulgence. Technically, the indulgence, which remitted the temporal punishment due to sins already forgiven, were not for sale, but from a financial point of view donations were every bit as bankable as sales.

When Albrecht made his triumphal entry into Mainz in November of 1514, his arrival was celebrated by a 1,300 verse "Panegyrikus" written by a poet-knight from the minor nobility by the name of Ulrich von Hutten. Hutten knew Albrecht through Eitelwolf von Stein, who as court administrator for the young archbishop from Magdeburg, had managed the nobleman's diocesan chancery for the Brandenburg family with the help of Ulrich's relative Marshalk Frowin von Hutten, who was influential in Mainz. When the crisis surrounding Albrecht's accession to the throne became acute, both men took the young Ulrich von Hutten into their confidence. Between Albrecht's election in March and the pope's confirmation of that election in the late summer of 1514, Hutten was a secret courier traveling back and forth between Magdeburg, the Stift residence at Halle on the Saale, and Mainz.²

Ulrich von Hutten was born on April 21, 1488 in Burg Steckelburg in what is today the province of Hesse-Nassau.³ His father intended him for the clergy, but in 1508 von Hutten contracted syphilis in Leipzig. The majority of medical historians assume that syphilis or lues had been brought back from America by the sailors who sailed with Columbus, and that it was a kind of Montezuma's revenge. The disease made its first appearance in Europe in Barcelona in 1493. Spanish mercenaries and camp followers then brought the venereal plague in the war against Charles VIII from France to Naples. When Charles's army in defeat dissolved into the four corners of the continent, the venereal poison migrated with them. The Italians and the Germans named the new disease *morbus gallicus* or the French disease. Syphilis turned Hutten into a wanderer. As Flake put it: "He had become repulsive to himself. His wounds stank and when pus wasn't running out of them, they oozed corrupted blood. People turned away from those with the plague not so much out of moral repugnance but out of fear, revulsion and antipathy."⁴

Syphilis produces a bewildering number of side effects, which are often not seen as connected to the disease itself. Bewildering side effects also characterized Ulrich von Hutten's literary career. One of the side effects of the exile which Hutten imposed on himself was that he romanticized his homeland. His trips to Italy and especially his experiences with the Italian clergy turned him against Rome and Catholicism. Another side effect was that syphilis turned Hutten against the Fuggers and capitalism.

In 1515, as part of their involvement with New World trade, the Fuggers got into the business of treating syphilis. Their preferred cure was wood from the guayak tree. After the guayak cure became known in central Eu-

rope in 1515 as a therapy for syphilis, the Fuggers erected a "wood house" in their low income housing district in Augsburg to treat the disease. Part of their motivation was financial. The Fuggers and the Welsers sensed they could make a killing by treating the syphilis epidemic and so they started beating the drum for French wood, otherwise known as *lignum sanctum* or the holy wood.

In 1518, Hutten tried his luck with the Fuggers' exotic miracle drug.⁵ Up 'til that time, Hutten had found momentary relief from hot baths, sulphur baths, various salves and mercury. This time around Hutten had to fast for 40 days in a moderately heated air-tight chamber all the while drinking bitter herbal tea; for roughly the same amount of time he treated the lesions on his legs with Guayak salve. Afterwards he felt reborn. He considered himself cured of the disease and reported in his own publication about his good experiences with the wood of life.

Without the slightest embarrassment, Hutten dedicated his tract on "the wonder drug Guyak and the French disease" to his prince, Cardinal Albrecht, and the discalced monk Thomas Murner, now known as a satirist, brought out a German translation.

When the symptoms of syphilis returned, his rage against the Fuggers focused on their capitalist exploitation of the German people. Perhaps because of later conversations with Hutten, the young physician Theophrast von Hohenheim, also known as Paracelsus, came to prefer mercury as the best treatment for syphilis. In two pamphlets he wrote in 1528 and 1529, Paracelsus accused the Fuggers of promoting the guayak cure out of financial interest.

Tertiary syphilis often attacks the brain, bringing on dementia and delusions of grandeur. Hutten suffered from both. Gradually, all of his enemies began to melt together in his mind. In his dialogue, "Febris" Hutten attacked the clergy in general and Cardinal Cajetan in particular. Hutten bade the fever which has plagued him to leave and to take up residence with the cardinal where he can find more to feed on since the cardinal was busy sucking money out of Germany under the pretext of funding a crusade against the Turks.⁶

Hutten saw his syphilis as a metaphor for the political situation. Just as his body was covered with sores from which oozed his life force as syphilis-corrupted bad blood, so Hutten viewed economic exchange as practiced by the Fuggers in general and the way they ran the indulgence trade in places like Mainz in particular as bringing about a very dangerous export of gold, the economic life force and therefore the equivalent of blood, from Germany. This bleeding of German economic life was even more reprehensible because other states, including Spain, France, and even England, had strictly protected themselves against such losses. The pernicious effect

which the Fugger banking family exerted over Germany had become part of the *lingua franca* of that day, for "in Swabia . . . the expression 'to fugger' meant to carry on trade in general, and in the popular mind it had an evil connotation in the sense of usurious trade or sharp practices."⁷

Hutten's hatred of the Fuggers had been growing for years. It most probably began two years before he took the guayak cure in the Fuggerei. During the spring of 1516 Hutten travelled to Italy and eventually to Rome, where he took up residence in the student quarter near the Campo di Fiore.⁸ By the time Hutten arrived in Rome, the Church was celebrating the penitential season of Lent. In order not to have to give up milk and butter, Hutten purchased a papal dispensation from the fasting rules, known as a "butter certificate," from the local branch of the Fugger bank.⁹ He also met Johann Zink, the Fuggers' branch manager in Rome, whom he "had seen at work with great zeal" selling benefices.¹⁰ Von Hutten's attacks drew down on Jakob Fugger a part of that deep hostility felt in wide circles in Germany against the abuses of many of those who preached indulgences, and eventually it helped bring about the Reformation.

Hutten became the spokesman for the minor nobility who had been shoved aside in social importance by the rising bourgeoisie, symbolized by the Fuggers. Since Fugger was an indispensable support for the Roman Church and equally to the Papal See as a financier, Hutten singled Fugger out as the popular target of his mockery, even though Hutten as a knight had made use of Fugger's connections to gain papal favor. It was most probably Hutten's attacks which prompted Fugger to write to George of Saxony: "Many in the world are hostile to me. They say I am rich. I am rich by God's grace, without injury to any man."¹¹

There is, of course, a certain irony here. Because of his trip to Italy, Hutten became a flaming German nationalist, and as such a fervent supporter of both Cardinal Albrecht of Mainz and the Emperor Maximilian without seeing that the policies of both men were financed by Fugger money. The same was true of the policies which Hutten supported so passionately. Hutten praised in enthusiastic terms Maximilian's Italian campaign, demanded equally passionately a crusade against the Turks, and signed on as a mercenary under the elector of Mainz, without the faintest inkling that all of these ventures were financed with Fugger's money. The Fugger firm was financing Hungarian resistance against the Turks, and that the only reason his Hohenzollern benefactor was archbishop of Mainz was because of Fugger's intervention with the pope.¹²

After his return from Italy during the summer of 1517, Hutten appeared in Augsburg. On his way back from Rome, Hutten met with Cochlaeus in Bologna, which only deepened Hutten's hatred of the Fuggers, since Johann Dobeneck from Wendelstein, one of Eck's enemies, filled him in on

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Jakob's connection to the professor from Ingolstadt and the capitalist background to the usury debate. In the final analysis, Hutten's friendship with the Pirkheimer circle diverted the animosity with which he attacked the merchant class in general into an attack on Fugger in particular.

In July of 1517, Hutten paid a visit to the imperial counselor and Stadtschreiber Konrad Peutinger, an ally of the Fuggers, who lived just south of the Augsburg Cathedral on the Fronhof.¹³ The court mathematician Johannes Stab had Peutinger persuade Kaiser Maximilian to crown Hutten as poet laureate of the Holy Roman Empire. At some time between the middle and the end of the 16th century poet laureates had proliferated in number and declined in value to the point where they were a dime a dozen, but for Hutten the laurel wreath crown, the title and the certification that went with it possessed magical power to both elevate and legitimate.

On July 12, Maximilian placed a crown of laurel leaves woven by Peutinger's daughter Konstanze on Hutten's head in the presence of the entire imperial court. The accompanying diploma spoke of Hutten's love of learning, his dangerous and pathos-filled years of wandering and his writings, which were now in everyone's library. When the laurels were placed on his head, Hutten received not only a license to teach poetics and rhetoric in all universities, but also the rights of a Doctor of Jurisprudence, the ring of a "Golden Knight" as well as the privilege not to be tried before any other court than the one over which the emperor and his counselors presided.¹⁴

Since the entire Catholic Church, including Pope Leo X, was overleveraged, the lender, in this case the Fuggers, arranged the sale of indulgences to suit the specifications of the dioceses where they were preached. Accordingly, Leo X granted Albrecht the right to have the St. Peter Indulgence preached in both Mainz and Kurbrandenburg for eight years. The Fuggers collected the indulgence fees and were then allowed to deduct the money they had lent Albrecht, plus interest. The Curia got to collect at least the same amount of money, i.e., 30,000 gulden as their share in the Indulgence operation.¹⁵ The indulgences were to contribute to the paying off of these debts, and by 1518 Albrecht was able to pay back 42,000 Gulden. So much for the financial end of the deal.

The marketing end of the indulgence deal was put into the hands of a Dominican monk by the name of John Tetzel. Unlike the situation in Portugal and France where the offer bombed, Germans flocked to Tetzel for indulgences. It was the classic win-win situation until one monk objected. Tetzel's sermons prompted an obscure theology professor at Wittenburg University to post 95 theses objecting to this and other church practices in October 1517. The name of the monk was Martin Luther.

Luther's protest could not have come at a worse moment for the Church. Belloc referred to it as "a moment of perilous instability."¹⁶ The Church had

already been wounded by the 11-year reign of Alexander VI, who spent all his energies trying to prevent the French king from calling a council to depose him, and in the process destroying the French king's advocate in Italy, Savonarola, who had declared war on sodomy and usury in Florence. After Savonarola's death, the situation in Florence settled down, only to flare up now north of the Alps. The distance was so great that Rome could be excused for not seeing it as a manifestation of the same issue.

The issue was capitalism and the general moral decline which had enabled its rise, but no one, least of all the Fuggers, who were in many ways the cause of the crisis that would lead to the destruction of Christendom, was capable of seeing it as such. There was, of course, no science of economics at the time, and certainly no science of capitalism. The only way that the Church could deal with the complexities of economic exchange was through the lens of moral philosophy, which is how the Mendicants tried to deal with the usury issue in the late Middle Ages.

The Fuggers felt that they had resolved the usury issue in 1515 when Eck gave his triumphal disputation in Bologna on the liceity of taking five percent interest on loans. Rome, which was up to its eyeballs in usurious dealings and heavily in debt as a result, was paralyzed by guilt as well as befuddled and incapable of recognizing the true magnitude of the situation or its cause. Rome, Belloc writes, "heard the news like the noise of a great but distant storm, and at first could make nothing of it. There is ascribed to Leo X, the Pope of his day, a phrase likely enough; that it was a mere quarrel of monks."¹⁷

Luther, because of his failure to deal with his own concupiscence, was constitutionally incapable of sophisticated thought in moral matters. Luther, in fact, believed that man in his fallen condition was incapable of leading a moral life. Condemned by his own unruly passions, the Christian could only invoke his faith as a cover for the sins he was condemned to commit. Needless to say, an attitude like this was not going to lead to sophisticated moral reasoning in the economic sphere. R. H. Tawney captured the Lutheran attitude toward morals and economics when he wrote that:

Luther's utterances on social morality are the occasional explosions of a capricious volcano, with only a rare flash of light amid the torrent of smoke and flame, and it is idle to scan them for a coherent and consistent doctrine. . . . he is like a savage introduced to a dynamo or a steam-engine. He is too frightened and angry even to feel curiosity. . . . He can only repeat that there is a devil in it.¹⁸

Once he became de facto head of the breakaway church in Germany, Luther felt obliged to comment on economic matters, but his thoughts were crude and of the sort one might expect from an anti-moralist whose fundamental principles were *sola fide* and *sola scriptura*. Luther was no innovator

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on economic issues. In fact, he was a determined foe of the economic innovations which Jakob Fugger had introduced into German life.

Luther "dismissed the commercial developments of the last two centuries as a relapse into paganism. . . . The most admirable life was that of the peasant, for it was least touched by the corroding spirit of commercial calculation."¹⁹ Given this attitude, Luther was going to adopt the Church's traditional teaching on usury, but while adopting the Church's repugnance, he simultaneously dismissed the labors which the canonists had expended for centuries to define the problem as so much Scholastic quibbling. The fact that the leading proponent of casuistry in economics was Dr. Johannes Eck, Luther's archfoe and an agent of the Fugger's, didn't help matters. As Tawney puts it:

Confronted with a request for advice on the specific question whether the authorities of Danzig should put down usury, he retreats into the clouds. "The preacher shall preach only the Gospel rule, and leave it to each man to follow his own conscience. . . . Detailed rules of conduct—a Christian casuistry—are needless or objectionable: the Christian has a sufficient guide in the Bible and in his own conscience."²⁰

In his essay on Commerce (1520), Luther had similar things to say. The faithful who "take an excessive profit of one or two or three gulden . . . should not burden your conscience with it." Rather, they should "bring it to God in the Lord's Prayer, as another of those inevitable sins that cleave to all of us."²¹

When Tawney claims that "Luther's impotence was not accidental. It sprang directly from his fundamental conception,"²² he is referring to Luther's notion that "Grace no longer completed nature: it was the antithesis of it." Because of his exaggerated notion of original sin, Luther concluded that commerce is intrinsically sinful:

It is not selfishness or greed that forces you to this mistake, but the very nature of your occupation (I am speaking now of good-hearted, God-fearing men, who would not willingly do wrong), just as the marriage duty is not performed without sin, and yet because of its necessity God winks at it, for it cannot be otherwise.²³

At another point, Luther writes:

I have given up the hope that trade can be entirely corrected; it is so overladen with all sorts of wickedness and deception that it cannot drag its own length; by its own weight it must fall in upon itself. . . . If we were to accept the principle that everyone may sell his wares as dear as he can, and were to approve the custom of borrowing and forced lending and standing surety, and yet try to advise men how they could act the part of Christians and keep their consciences good and safe – that would be the same as trying to teach men how wrong could be right and bad good, and how one could at the same time live and act according to the divine Scriptures and against the divine Scriptures. For these three errors – that

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everyone may sell what is his own as dear as he will, borrowing, and becoming surety – these, I say, are the three sources from which the stream of abomination, injustice, treachery and guile flows far and wide: to try to stem the flood and not stop up the springs, is trouble and labor lost.²⁴

Since Luther doesn't believe in moral restraint, social order must be imposed on the body politic by state-sanctioned violence:

the world needs a strict, hard temporal government that will compel and constrain the wicked not to steal and rob and to return what they borrow, even though a Christian ought not demand it, or even hope to get it back. . . . Let no one think that the world can be ruled without blood; the sword of the ruler must be red and bloody; for the world will and must be evil, and the sword is God's rod and vengeance upon it.²⁵

In a world where reason is a feeble guide which invariably gets overridden by human passion, Luther can offer only the simplest economic principles: "Therefore the first piece of advice to such a man is that he shall not borrow anything or accept any security, but take only cash."²⁶

This theological exaggeration of the effects of original sin effectively put an end to economic science in the Protestant world for the next two centuries, until the Enlightenment reaction rehabilitated reason by repudiating the anti-intellectualism of the Reformation. Tawney saw the contradiction. Luther could not preach the charity which the Gospel demanded while at the same time undermining "every institution by which an attempt had been made to give it a concrete expression."²⁷ The medieval social order which Luther admired could not be preserved when cut off from the Scholastic social teaching which had made it possible in the first place. That social teaching rested upon trust in reason as a guide to life. In repudiating practical reason, Luther repudiated the possibility of any sophisticated discourse in the economic sphere because "it was useless for the Church to prohibit extortion, unless it was prepared to undertake the intellectual labor of defining the transactions to which the prohibition applied."²⁸ The labors of the Italian Mendicants would be put on hold. What would not be put on hold was the rapacity of economic life once it had been "liberated" from moral restraint by the reformers. The Reformation was not followed by an orgy of looting Church property; the Reformation was an orgy of looting Church property.

Rather than view economics as a moral issue, Luther construed it in political terms; or to be more specific, he viewed it through the lens of German nationalism. This would have fateful consequences for the next five hundred years, and it was largely the doing of Ulrich von Hutten. Luther would fall more and more under Hutten's spell when it came to politics and economics. One of the main reasons for this was Hutten's superior command of both Latin and German. Hutten switched from Latin to Ger-

man at a crucial point in Germanic linguistic history. According to Flake, Hutten was the man who could have created a usable educated German language if he had lived another ten years.²⁹ Hutten's masterpiece, the *Epistoliae Viri Obscurorum* or the *Dunkelmaennerbriefe*, demonstrated his linguistic superiority in both Latin and German. The "Dunkelmaenner," Hutten's scholastic opponents in the logomachy of the early 16th century, "lacked the command of the language . . . which could have brought about the synthesis of the German and Latin spirit."³⁰

Hutten would exert influence over Luther's thought in other areas as well. At the end of February 1520, Luther read Hutten's Valla edition of the counterfeit donation of the Constantine. This pamphlet strengthened Luther in his belief that the pope was the anti-Christ.³¹ But the main sphere of his influence was in the secular realm, the realm which Luther's theology made him abhor.

Luther, most importantly, followed Hutten's lead in economics and politics and adopted the basic idea of Hutten and Sickingen, namely, that the merchants were the worst sort of robber, far worse than the robber barons. Luther didn't understand "how a man could earn 20 Gulden a year from 100, one Gulden from another, and all of that without anything to do with land or cattle."³² Taking his cue from Hutten, he felt that the new capitalist economics was responsible for the spread of luxury and the degeneration which followed in its wake. It "came into existence less than a century ago and already just about every Prince, foundation, city, aristocrat and heir was reduced to poverty, woe and ruin by it."³³ Following von Hutten's example, Luther blamed the merchant class for everything that was wrong with the Holy Roman Empire. In his letter to the German nobility, Luther complained long and loud about the impoverishment and ruin that was afflicting the Germanies and laid the blame at the feet of the merchant class.

What is the use in Christendom of the people called "cardinals"? I will tell you. In Italy and Germany there are many rich convents, endowments, fiefs, and benefices, and as the best way of getting these into the hands of Rome, they created cardinals, and gave them the sees, convents, and prelacies, and thus destroyed the service of God. That is why Italy is almost a desert now: the convents are destroyed, the sees consumed, the revenues of the prelacies and of all the churches drawn to Rome; towns are decayed, the country and the people ruined, because there is no more any worship of God or preaching; why? Because the cardinals must have all the wealth. No Turk could have thus desolated Italy and overthrown the worship of God.³⁴

The main issue was economic. What was true of Italy was *a fortiori* true of Germany. Rome was bleeding Germany dry. The gold was hemorrhaging south:

What has brought us Germans to such a pass that we have to suffer this robbery

and this destruction of our property by the Pope? If the kingdom of France has resisted it, why do we Germans suffer ourselves to be fooled and deceived? It would be more endurable if they did nothing but rob us of our property; but they destroy the Church and deprive Christ's flock of their good shepherds, and overthrow the service and word of God. Even if there were no cardinals at all, the Church would not perish, for they do nothing for the good of Christendom; all they do is to traffic in and quarrel about prelacies and bishoprics, which any robber could do as well.³⁵

Luther urged Charles V (who as of June 1520 had not yet been crowned emperor) to free Germany from the "Romish robbers," an act to which he is entitled "by virtue of his temporal sword."³⁶ The main issue was economic:

This wantonness and lying reservation of the popes has brought about an unutterable state of things at Rome. There is a buying and a selling, a changing, blustering and bargaining, cheating and lying, robbing and stealing, debauchery and villainy, and all kinds of contempt of God, that antichrist himself could not rule worse.³⁷

The main problem was that gold was flowing south and not returning. Rome was bleeding the German principalities dry. Given this view, it's not surprising that the indulgence trade was the spark that set off the conflagration. The fact that Luther returned to the indulgence issue when he wrote his treatise on usury in 1524 shows that the connection between Rome's corrupt theology and its economic policies was inseparably linked in his mind.

Nor is it surprising that the Fuggers would earn the ire of the German nationalists because it was they who were conveying the money south—after skimming off a considerable portion for their pains, of course. Luther attacked the Fuggers without mercy, demanding a return to the hierarchical society of the Middle Ages and an economic order based on the just price. Luther and his supporters in the lower nobility were frozen out of the new money economy that was making the Fuggers rich. As a result, they were frozen out of the money markets. Like their counterparts in England after the founding of the Bank of England, the landed aristocracy was locked into an exchange economy of what looked more and more like a bygone era, where the lord was paid not in gold but in days of labor.

If there was a positive side to this Germanic ethnocentrism it lay in the German recognition of the value of labor. Luther valued labor because he was a German. Luther understood that all economic enterprise involved a combination of labor and risk. Usury, according to Luther, allowed men to do business without risk. Taking aim at the rentier class in wealthy cities like Augsburg, Luther claimed that "buying an income" was no different than usury because it "allows men to do business without risk."³⁸ Luther continues:

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The buyer is sure of his income and has no risk, and this is against the nature of any real bargain; and it would not be so, if the property were described parcel by parcel, and the income were to fluctuate with the value of the ground, as is right. . . . The only way of defending this business against the charge of usury – and it would do so better than all talk of interest – would be that the buyer of income have the same risk and uncertainty about his income that he has about all his other property. . . . O how many cities, lands, and people must pay these charges, when it has long since been men's duty to remit them! For if this risk is not taken, the purchase of incomes is simply usury.³⁹

After a brilliant summation of the implications of one of the fundamental principles of Scholastic economics, Luther undoes whatever good he might have done by refusing to get specific, claiming "It is not my affair, however, to point out when one ought to pay five, four, or six percent. I leave it for the law to decide when the property is so good and so rich that one can charge six percent."⁴⁰

Instead, Luther proposes what he calls the system of tithes, which is to say a fixed system of fees or fixed charges, not compounding interest:

Thus everything would be fair, and all depend on the grace and blessing of God. If the tithe turned out well in any year, it would bring the creditor a large sum; if it turned out badly, the creditor would bear the risk as well as the debtor, and both would have to look to God. In that case, the income could not be fixed at any given amount, nor would that be necessary, but it would always remain uncertain how much the tithe would yield and yet the tithe would be certain.⁴¹

The tithe system was compatible with Luther's doctrine of sola scriptura because it is mentioned in the Bible.

The tithe, therefore, is the best of all fixed charges and it has been in use since the beginning of the world, and in the Old Law it is praised and established as the fairest of all arrangements according to divine and natural law. By it, if the tenth did not reach, or were not enough, one could take and sell a ninth, or fix any amount that the land or house could stand.⁴²

Any income that is based on the deliberate avoidance of all risk is usurious because, among other things, it presumes in advance God's blessings:

But now that incomes are bought in definite and certain amounts, all years are equal, good and bad alike, and land and people must be ruined. The purchaser buys the same income for unequal and equal years, poor years and rich years; nay, he buys a blessing that God has not yet given for a blessing that is already given. That can never be right, for by that means one sucks another's sweat and blood. Therefore it is no wonder that in the few years that the buying of incomes has been practiced, i.e., about a hundred years, all princedoms and lands have been impoverished and pawned and ruined.⁴³

Whatever good Luther has to say about economics—for example, his understanding of usury as avoidance of risk—invariably runs aground on his exaggerated notion of original sin:

I have often taught that the world ought not and cannot be ruled according to the Gospel and Christian love, but only by strict laws, with sword and force, because the world is evil and accepts neither Gospel nor love, but lives and acts according to its own will unless it is compelled by force. Otherwise, if only love were applied, everyone would eat, drink and live at ease on someone else's goods, and nobody would work; nay, everyone would take from another that which was his, and there would be such a state of affairs that no one could live because of the others.⁴⁴

Passages like this were music to the ears of the German nobility. They had been corrupted like everyone else. The air was thick with avarice and lust. Now they had a preacher who was telling them that it was pointless even to attempt to restrain their appetites by conforming them to the moral law, which was another word for practical reason. He was also telling them that they could make up in German nationalism what they lacked in moral restraint. And as if all of that weren't bad enough, he was also telling them that the only rule which counted in this life, the only source of political order, was brute force of the sort they were only too happy to exercise on those who were weaker and less ruthless than they were.

The German nobility, which should have taken the side of the Church, was blinded by their own greed, especially when Luther showed himself amenable to handing over Church property in exchange for recognition as the state church. Luther, according to Belloc, "found a protector in his sovereign, the Elector of Saxony, who appears to have had as strong a relish for plunder as that which our English tyrant and his courtiers and Parliament were seized a few years afterwards."⁴⁵

Luther launched his words into a troubled world with one intention, but the debased state of the nobility, who were "panting" for the raiding of Church wealth as well as the state of moral decay among the peasantry, who rose up in revolution against a system in which Kaiser, Kapital and Kirche made up one undifferentiated mass, insured that Luther's message would bring about unintended effects. Luther thought he was inaugurating a theological debate, but he let loose a revolution.

When the fury of those forces began to gather in earnest, there was no central government to oppose them. As a result, all hell broke loose. Luther's "Appeal to the Christian Nobility" did nothing to strengthen their Christianity but it did incite their passion for looting Church property by giving that looting a theological excuse. The nobility and the peasantry alike, thanks to the new gospel preached by Dr. Luther, felt that moral restraint was now unnecessary, since God's grace covered over all sin as newly fallen snow covered a dung heap: "What followed it was . . . an artificial process managed by a very few interested men, and these not acting on a religious fad, but for money."⁴⁶

By breaking the unity of Christian thought which had been ham-

mered out in the Middle Ages, Luther created the dialectic which would plague German political and economic life for the next 500 years. Luther brought this about by his denigration of morality and reason. Now political and economic life could be predicated upon force alone. The serf could rise up in revolution against his lord, but the lord could put down that uprising without the any consideration of justice, mercy, or reason. This is precisely what happened when Philip of Hesse, at Luther's bloodthirsty urging, crushed the peasant revolt. This dialectic would eventually find its culmination in the class struggle of the 19th century. Both the Left and the Right came into being as a result of Luther's emancipation of political and economic life from the moral law.

It is unclear when Jakob heard of Luther and his posting of the 97 theses at Wittenberg. In the spring of 1517 he received a report on the situation in Saxony from his branch manager in Leipzig.⁴⁷ The theoretical justification of the indulgence business was a theological issue, and theology was not part of Jakob's job description. A revolution had transformed spiritual life in Augsburg while Jakob was busy making money. The once docile population of Augsburg, which had been moved to penitence by the sermons of St. John Capistran, had become a surly mob of power-conscious Burghers who had become arrogant in spiritual matters.⁴⁸ Jakob, the businessman, could not understand the storm of public opinion against the Mainz indulgences. The returns for the bishops were scanty, and Rome and he got even less. The company's share was so modest that it barely covered costs. It never occurred to Jakob that the issue was not the amount of money but the principle because he was an unstinting advocate of loyalty to the Curia and the conventional way of doing business.⁴⁹ As a result Jakob and his nephews became accomplices in the indulgence business in the eyes of the masses and therefore guilty for their continued drain on German gold.⁵⁰

Like many a subsequent traditionalist, Jakob Fugger was obsessed with liturgical matters and blind to the bigger issues of his day. So on the eve of the Reformation, which would bring an end to the Medieval Catholic world, the unity of Christendom, and everything that Jakob held dear, his nephew Anton was on his way to Rome, to plead Jakob's case before the Curia against the parish council of St. Moritz and the liturgical abuses they permitted.

Endnotes

- 1 Carlheinz Graeter, *Ulrich von Hutten: Ein Lebensbild* (Stuttgart: Konrad Theiss Verlag, 1988), p. 84. My translation.
- 2 Graeter, pp. 90-1.
- 3 Otto Flake, *Ulrich von Hutten* (Frankfurt am Main: Fischer Taschenbuch Verlag, 1985), p. 19.
- 4 Flake, p. 69.
- 5 Graeter, p. 137.
- 6 Graeter, p. 144.
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- 8 Graeter, p. 111.
- 9 Ibid.
- 10 Goetz Freihorrrn Von Poelnitz, *Jakob Fugger: Kaiser, Kirche, und Kapital in der oberdeutschen Renaissance*, (Tuebingen: J.C.B Mohr, 1949), p. 343.
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- 12 Ibid, p. 485.
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- 16 Hilaire Belloc, *How the Reformation Happened* (New York: Robert M. McBride & Company, 1930), p. 69.
- 17 Belloc, p. 70.
- 18 R. H. Tawney, *Religion and the Rise of Capitalism: a Historical Study* (Holland Memorial Lectures, 1922) (Gloucester, Mass: Peter Smith, 1962), pp. 88-9.
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- 23 Martin Luther, "On Trading and Usury," translated from *Works of Martin Luther*, Vol 4, (Philadelphia: A.J. Holman Co., 1915), http://www.lutherdansk.dk/Martin%20Luther%20-%20On%20trading%20and%20usury%201524/ON%20TRADING%20AND%20USURY%20-%20backup%20020306.htm#_Toc129069587
- 24 Ibid.
- 25 Ibid.
- 26 Ibid.
- 27 Tawney, p. 98.
- 28 Tawney, p. 100.
- 29 Graeter, p. 165.
- 30 Ibid.

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31 Graeter, p. 168.

32 Von Poelnitz, ?, p. 488.

33 Ibid.

34 Martin Luther, "Address To The Nobility of the German Nation, 1520," in *The prince / by Niccolo Machiavelli. Utopia / by Sir Thomas More. Ninety-five theses; Address to the German nobility ; Concerning Christian liberty / by Martin Luther*, ed. by C.W.Eliot, (New York : P.F. Collier, c1910), <http://www.fordham.edu/halsall/mod/luther-nobility.html>.

35 Ibid.

36 Luther, "Trading and Usury," op.cit.

37 Ibid.

38 Ibid.

39 Ibid.

40 Ibid.

41 Ibid.

42 Ibid.

43 Ibid.

44 Ibid.

45 Belloc, p. 45.

46 Belloc, p. 89.

47 Von Poelnitz, *Jakob Fugger*, p. 377.

48 Ibid., p. 371.

49 Ibid., p. 375.

50 Ibid, p. 376.

Chapter Twenty-Six

Anton Fugger's Romreise

At around the time that the news of the outbreak of the Reformation was reaching Augsburg via the firm's branch manager in Leipzig, young Anton Fugger was riding his horse over the Alps heading south.¹ His job was to tell the pope in no uncertain terms how the crude and uneducated canonists who ruled the roost in Jakob's parish church butchered the liturgy. According to Jakob, they acted like hirelings, and when they took the time to say the Masses Jakob had paid for, they did the chanting mockingly even on holy days. During ordinary time they failed chant their office at all and spent their time figuring out how to better despoil the Church.²

When he got to Rome, Anton quickly understood how little meaning the Augsburg controversy had for the papal court of Leo X. Rome's literati, agents and Curial officials were under the spell of the Golden Age, an age of undeniable magnificence based on an equally undeniably rotten foundation of simony and usury. As if sensing that this couldn't go on forever, the mood in the Curia lay somewhere between uninhibited hedonism and equally uninhibited greed.³ Pope Leo was burdened by a mountain of debt and the unwelcome prospect of raising even more money for a crusade against the Turks. If he considered the beginning of the Reformation "a quarrel among monks," it's not difficult to see how he was going to view complaints about liturgical abuses in a parish in Augsburg, even if they were conveyed by the nephew of the richest man on earth. Anton must have sensed that his uncle's "delicate mission" was in fact a fool's errand, because he soon lost interest in the Curia and found himself, in spite of his family's wealth, in a financially embarrassing situation. Anton had overdrawn his account as branch manager, causing von Poelnitz to wonder whether he had succumbed to one of Rome's many temptations, a sexual liaison perhaps, or gambling debts, or some secret speculation, or simply the high-end lifestyle that someone in his position had to lead if he were to make the right impression with Church officials jaded with the splendors of Renaissance Italy.⁴

Ironically, both Pope Leo X and his German nemesis Ulrich von Hutten had the same reaction to the posting of Luther's 95 theses. Like the pope, the German knight dismissed it with the supercilious smirk of a humanist contemplating a monk's quarrel. The indulgence controversy makes its first

appearance in Hutten's writings in a letter which he wrote on April 3, 1518. It was like a flash of lightning, brief but full of contempt, but with time Hutten began to see the political significance of the indulgence issue and how it symbolized everything that was wrong with Germany.⁵

Hutten used the indulgence issue as the opening salvo in his attack on the Fuggers, whom he held responsible for the ruination of the old German simplicity. Hutten capitalized on Luther's dramatic gesture protesting indulgences, but Luther followed Hutten's lead when it came to politics and economics. Unfortunately, Hutten was even more ignorant of economics than Luther. He began his attacks on the Fuggers tellingly in his treatise on syphilis and then expanded that passionate attack, which was based on erroneous assumptions and partial or tendentious facts, to include all things Roman in Germany, and that meant the Fuggers and with them the bourgeois world which the merchant Fuggers embodied for the Junker class.

Hutten's attack on the Fuggers was full of errors because economic thinking was alien to him. According to Hutten, "nothing other" than the overseas spice trade, which in reality played a minor role in the Fugger financial empire, had made Jakob "so rich," while he, a poor poet, was hard-pressed to take care of his sick body. Hutten repeated the same theme in a pamphlet which he dedicated in the Spring of 1519 to the elector archbishop of Mainz entitled, "The Fever." Hutten bade his disease to leave him and take up residence in a worthier host. Since the disease evidently declined to infect Cardinal Cajetan, who treated his people so carelessly, the poet suggested that the disease infect Fugger, where it would be well taken care of.⁶ Fortuna, the goddess whom Hutten invoked in his diatribe, replied that she had to take care of the Fuggers first, who needed 200,000 Gulden annually to buy Indian pepper and European saffron, and as a result the 1,000 Gulden that the poet wanted simply wasn't available.⁷

Hutten was in a bind because both of his patrons, Albrecht of Mainz and the Emperor, were dependent on Fugger money. But as the battle grew more heated Hutten was able to cover over what he lacked in understanding of economics with rhetoric, of which he was an undisputed master. Hutten had already made contact with the Humanist circle which met at the Gasthof zur Krone in Mainz. There he met 60-year old Johannes Reuchlin, who was considered, next to Erasmus, the world's foremost philologist and expert in ancient Greek.⁸ Hutten would go on write volume II of the *Epistolae Viri Obscurorum* in defense of Reuchlin, gradually drawing him unwillingly along with Erasmus into the revolutionary nationalist movement that he was creating with his rhetoric. Among the publications which Hutten the Knight dedicated to Reuchlin's great nephew as well as to Luther was "The Onlooker," which placed the blame for the moral degradation of Germany on the merchant class, and which held the Fuggers

responsible for the intention of creating armies to destroy the lower nobility who were then rallying around the Wittenbergers.⁹

Hutten wrote his diatribe at the beginning of a period of rising prices and inflation which no one could explain. The only people who had any experience dealing with issues like this were the Italian scholastics and Dr. Johannes Eck, who had been demonized by Hutten's one-man propaganda ministry. Given an atmosphere like this, no one was going to get to the economic heart of the matter, as long as Hutten was willing to exploit the matter for political purposes. Every propaganda campaign needs a villain and Hutten was eager to cast the Fugger family in this role, if for no other reason than as a way of covering his ignorance in economic matters. Hutten wrote "*Bulla vel Bullicida*" or the "Bull Killer" as a defense of Luther and an attack on the Fuggers.

Using what he learned about Eck as the employee of Fugger interests while in Bologna and combining that with the fact that Eck was now Luther's main opponent in the theological realm, Hutten concluded that the Fugger family was orchestrating events from behind the scenes. Luther, according to this scenario had been excommunicated in exchange for money from the Fuggers, but Hutten refused to remain silent because the real issue was German freedom.¹⁰

Without any real proof, Hutten drew the wildest possible conclusions from Eck's previous connection with the company. The reformers were claiming that the Fuggers had sent Eck to Rome to prosecute their case against Luther. Wasn't the reason obvious? Out of fear of losing money in his indulgence trade, the "money king" urged the pope to take violent measures against annoying critics of the indulgence business.

No one could furnish proof for these illuminating assumptions. They seemed to many to be credible simply because Eck had visited the Fuggers, and no further proof was needed. When as a result of the efforts of the professor from Ingolstadt, a bull was issued stripping Luther of his priestly office, Anton Fugger held responsible as its secret agent. Weren't the proceedings against St. Moritz, when he made use of his Curial connections proof enough? The public quickly got used to the presumption that Fugger money was responsible for the proceedings against the German reformers, an assumption made less in Rome or Wittenberg than in Augsburg, Eichstaett or Nuernberg.¹¹

Hutten responded by literally putting words in Luther's mouth. Luther, a character in the "Bull-Killer" dialogue, attacked the Fuggers by claiming that they would be the first to be justified because they never lacked the means to buy new indulgences.

Then Hutten returned to the theme which he now shared with Luther and Sickingen. Merchants were worse than robbers. The worst of all

were the Fuggers. They ruined German morals with their money, and if it came to a vote would have ordered the expulsion of the majority of the bourgeoisie. The entire world was of one mind in complaining that the Fuggers had excluded other businessmen from foreign trade in order to enjoy a monopoly. With unexampled ruthlessness they tried to use their financial clout to cut out weaker competitors, so that they could charge whatever prices they saw fit. In Hutten's eyes the Fuggers were responsible for keeping any competition out of the Indian market. They jacked up the price of pepper and saffron to an intolerable degree. And, as Sickingen had claimed in the "Robbers," Fugger's double dealing was also responsible for the debasement of the currency.¹² The extreme nature of this attack, which made the Fuggers responsible for a thousand things they had nothing to do with, reached its apogee in the "Robbers." According to Hutten, nothing good could come from the firm. The connection with Cardinal Lang, loose as it was, became an excuse for reproach. Since Hutten had visited Augsburg a number of times, he was familiar with the Medici-style tomb which Jakob had had built in his parish church. Hutten dragged this into his diatribe as well, complaining about their "royal" sepulchre and mocking their religious foundations. The fact that the Emperor Maximilian had raised them to the nobility seemed to him indefensible because they only achieved this rank with money and not by arms. In making these claims, Hutten overestimated the influence which the Fuggers enjoyed in Rome and was in error when it came to his understanding of the Fugger's involvement in the spice trade. He had no understanding of the economic forces which he made them symbolize, nor was he able to get to the heart of the matter, which was the Church's inability to nail down the usury issue and the moral corruption which had made usury as well as simony along with all of the other deadly sins rampant in medieval Christendom. Hutten was a master of rhetoric, and rhetoric without a moral foundation glides easily into sophistry and pandering and revolution, which is precisely where things were headed in Hutten's syphilitic brain. As a result, the sense that "someone had to put a bit in the mouth of the Fuggers and their colleagues" began to spread through the revolutionary movement which Hutten was cobbling together with his rhetoric.

Rome, of course, was trying to do the same thing with Luther. In 1518 Luther was summoned to give an account of his beliefs before the Diet of Augsburg. It is unlikely that Fugger had anything to do personally with Luther's first trial. Like many of his contemporaries, Fugger had a hard time understanding what the issues were. His interests were in the political sphere. Fugger understood how a metaphysical justification of a revolutionary struggle that was driven largely by social forces could mobilize the peasants, the petit bourgeoisie and the squires against a small class of pow-

erful merchants¹³ because the population which made up the revolutionary cadres had been overwhelmed by the changes the age had brought about. The indulgence issue wasn't totally outside Fugger's circle of interests, but it didn't impinge on the real source of his financial activity.

From October 12 to 14 Luther was interrogated by the papal nuncio, Cardinal Jacob de Vio from Gaeta, known as Cajetan, who ordered Luther to retract or suffer the consequences.¹⁴ Luther temporized and was saved from either recantation, which would have angered his German supporters, or defiance, which would have led to his condemnation by the Inquisition, by the fact that the German nobility had him abducted before Cajetan could reach a verdict.

Endnotes

1 Goetz Freiherrn von Poelnitz, *Anton Fugger 1. Band* (Tuebingen: J.C.B. Mohr, 1958), p. 40.

2 von Poelnitz, *Anton Fugger*, p. 45.

3 von Poelnitz, *Anton Fugger*, p. 42.

4 von Poelnitz, *Anton Fugger*, p. 46

5 Carlheinz Graeter, *Ulrich von Hutten: Ein Lebensbild*, (Stuttgart: Konrad Theiss Verlag, 1988), p. 129.

6 Von Poelnitz, *Jakob Fugger*, p. 486.

7 Ibid.

8 Graeter, p. 94. See also my discussion of the Reuchlin/Pfefferkorn controversy in *The Jewish Revolutionary Spirit*.

9 Von Poelnitz, *Jakob Fugger*, p. 488.

10 Ibid.

11 Von Poelnitz, *Jakob Fugger*, p. 452.

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Chapter Twenty-Seven

The End of the Middle Ages

On January 12, 1519 between three and four o'clock in the morning the Emperor closed his eyes for the last time. When Maximilian I died, the Middle Ages died with him. The transition from the era of the feudal knight to the age of the bourgeoisie meant the dawn of the age of Capitalism as well. The romantic dreams of hegemony which formed Maximilian's mind died with him and were replaced by the calculations of sober modernity, which is to say financial calculations.¹

The emperor was dead, and the old days were gone. Jakob paid no attention to the writings of the monk who had just been in Augsburg, where he damned Fugger along with the Roman papacy. Fugger was tone deaf when it came to the great spiritual and intellectual conflicts of his age. When Fugger was concerned about the succession of the Emperor, he failed to see that Luther was busy destroying the unity of the Middle Ages out of some deep necessity in his soul that opened a new way of freedom for the layman, which Fugger, who also had fought for lay rights in the Church, never intended and would certainly have never approved.²

The world still had to deal with Jakob Fugger whether they loved him or hated him. Jakob Fugger was a deeply-divided man. On the one hand he was a staunch defender of traditional Catholic piety and all of the devotions which went along with it. He was a loyal servant to Maximilian, who loved to stay at his house and join in Fugger family celebrations whenever he was in Augsburg. But on the other hand, Fugger was the driving force behind the economic forces which were destroying the world which Maximilian, the last knight, symbolized. It wasn't economic change per se, which was destroying the empire. It was the unresolved usury question combined with a revolutionary German nationalism which refused to examine the moral and economic issues at the heart of the Reformation and decided to exploit them politically instead. Fugger was no intellectual and the intellectuals he cultivated, protégés like Eck, were incapable of formulating a coherent policy that at once combatted the immediate problem and dealt with its root causes. As if sensing that the age he loved had died with Maximilian, Jakob slipped unnoticed into the ranks of the aged over the Winter of 1518-19.

The death of Maximilian precipitated a succession crisis which occupied the Fugger family for the next two years. Each elector had to be bribed for his vote, and the main financiers of that bribery were the Fuggers. The

French, who wanted to make their king the new emperor, knew this as well as the Habsburgs, and the Valois did everything within their power to bring the Fugger to their side in the pre-election wrangling.

Eventually the Fuggers' threw their lot in with the Habsburgs. When on June 28, 1519 the various electors finally united behind his Catholic majesty, everyone was of one opinion about whom Charles needed to thank for his election.³ The Habsburgs beat out the Valois in the imperial election because of their access to Fugger money. It wasn't just politicians and military men who felt that Wuerttemberg's fate lay in the hand of the Fuggers, the intellectuals recognized this as well, as Reuchlin wrote to Hummelberg.⁴ The cost of putting Charles V on the Imperial throne came to the not inconsiderable sum of 802,189 rheinische Gulden, a sum which would lead the house of Habsburg into bankruptcy less than 40 years later thanks to the inexorable workings of compound interest.

Jakob celebrated Charles' election by setting off a huge fireworks display outside his residence on the Weinmarkt. Even if showing emotion was alien to his nature, this was an occasion he wanted to celebrate.⁵ But the situation was fraught with danger. The most obvious danger lay in the still unknown character of Charles himself. If Charles didn't stand by the Fuggers, then the money spent on the election as well as his loans to the Habsburgs were as good as gone. It was with this possibility in mind that the Fuggers warned Charles that if he were to refuse to repay his debts, then "his imperial majesty would suffer loss of credit and reputation among the German nations."⁶

But there was a more subtle danger, one bound up with the nature of the loan itself. At some point after his election as emperor, Charles V entered the realm dreaded by all bankers past and present of the borrower who became too big to fail. The Fuggers had become dependent on the grace of its biggest debtor, which ultimately led to their downfall as a result of the Spanish default.⁷

Jakob Fugger took his first steps down this dangerous path in 1518-19, the period which began with Maximilian's death and which ended in the aftermath of Charles' election. The end of that path was not visible at that point, and there was no necessity leading to it, but a certain decision was made. At one time the Bank was capable of making a change of course—even if limited by the links to Tyrol and Hungary. The Valois dangled this possibility before Fugger's eyes. When Jakob turned down the French offer and concentrated exclusively on the business of the Habsburgs, this wasn't just a momentary consolidation. By throwing in their lot in with the Habsburgs, the Fuggers' financial policies lost their inner flexibility and tactical maneuverability, which had hitherto characterized their style and which had led them to be sought after so avidly by the crown. From the

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Fugger's point of view it was more advantageous to be seen as an ally who still needed to be won over for a particular loan.⁸

Charles lacked a clear picture of the difficult situation which the unfortunate financial policies had landed his family.⁹ The Fuggers needed to convince the young emperor that he needed to repay his debts, something that was still not a clear idea in the minds of Christendom's temporal lords. The real problem was how to get a dependable repayment of the unheard of sums lent to secure Charles' election, and so it was with some sense of urgency that the Fuggers began their personal discussion of a debt repayment schedule with the young emperor's finance ministers.¹⁰

This situation became more difficult by the day. The competition was offering the new emperor loans, if for no other reason than to break the position of dominance which Jakob enjoyed. Competing offers complicated the negotiations by introducing unwelcome delays. If the firm agreed to these delays then it was possible that the Reichstag would adjourn and Karl would leave Germany without resolving the central issue, namely, the repayment of debt upon which all future dealings with the Fuggers depended. The nuncio wrote to Rome that "From one day to the next, the princes leave the Reichstag just as the leaves fall from the tree in the Fall." The issue of the election debts needed to be resolved, otherwise the Fuggers would have hell to pay.¹¹

The Fuggers prided themselves on never taking usurious interest, which is to say, more than 5 percent, on the money they lent to the Habsburgs. However, the staggering amount of the principal involved in the Habsburg loans was bound to cause problems even at interest rates that were considered moderate. Compounding would ensure trouble down the road. Because of the huge amount the Habsburgs owed the Fuggers, the Fuggers lost whatever tactical advantage the lender had over the borrower. The 800,000 gulden debt, which kept growing during the negotiations, bound the firm to the emperor with unbreakable fetters.

After the firm had lent this much, it had to provide further credits whether it wanted to or not.¹² The loans had created such a drain on Fugger capital that delays in repayment caused serious liquidity issues, which meant that the Fuggers had to borrow at ten percent while waiting for the payments on which they were earning a five percent return—precisely the position which the London branch of the Medici Bank had found itself in when dealing the English king. Needless to say, this was a recipe for disaster. The young emperor had to be reminded repeatedly by both Jakob and his nephew Anton that continued delays in repayment would "ruin Fugger and with him all of his relatives and good friends who lent him the money that I lent you, so that you would be harmed rather than helped."¹³

The big issue at the imperial Diet was the election of Charles V, or from

the Fuggers' point of view, how the Habsburgs planned to pay for it. The financial issues, however, obscured what the objective observer with the benefit of historical hindsight would see as more important issues. The issue of debt payments between the Fuggers and Charles V arose at precisely the same moment that the Luther question reached its climax.

Unhappy with the outcome of their meeting during the Diet of Augsburg in 1518, Cajetan arranged another meeting with Luther, this time at Fugger's house on the Weinmarkt in 1519. Cajetan stayed at Fugger's house. Luther did not. During his earlier stay in Augsburg, Luther had made many friends among the intellectuals who wished the Fuggers ill.¹⁴ Luther was staying with Dr. Frosch, who was prior at St. Anna's. That Luther saw the Fugger sepulcher and that he said mass in the neighboring cloister chapel is beyond doubt.

On the other hand, there is no indication that the financier attempted to arrange a meeting between the Cardinal, who was attentive to his wishes, and the monk who was staying at St. Anna's, even though they were only a hundred steps apart. The experiences which Luther had in Rome forged in his mind the connection between the Curia and the Fuggers and increased in his mind the sense that Fugger financial power was running the Church.¹⁵ Fugger's refusal to support Luther during Cajetan's stay surely contributed to a deepening of the divide separating Jakob and the humanists. The patricians who supported Luther in dangerous times, and Wilibald Pirkheimer, who protected him in Nuernberg, numbered among the most reliable of the Reformer's friends as well as the most passionate foes of Eck and Fugger.

Luther's meeting with Cajetan was a postscript to the Reichstag held in Augsburg. The nuncio had a knife out for the emperor, but he had brought a cardinal's hat with him over the Alps for Archbishop Albrecht of Mainz. Cajetan wanted to address the theological issues directly; Cajetan wanted to convince and if necessary to intimidate a bit. But the conference at the Fuggerhaus on the Weinmarkt proved tougher than he expected. Cajetan exhorted to recantation, but Luther asked for refutation; the one insisted on the indulgence bull, the other on the sacred scriptures. At the conclusion of the meeting, Cajetan threatened Luther with excommunication, but Luther remained adamant. He could only recant "if my conscience were to permit it." That was the point, consciously or not, of his break with Rome. When he was asked where he was going to find refuge under excommunication and persecution, he replied, "*Sub coelo*," under heaven.¹⁶

The center of the European financial universe continued to be the Augsburger Weinmarkt, where the great old man sat at the center of his business dealings like the spider at the center of its web,¹⁷ but other horizons opened up after Martin Luther refused to recant his beliefs in the

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presence of the Legate Cajetan in Fugger's house.¹⁸ While Anton was hard at work trying to bring the Curia around to his uncle's views, the donation lords got Duke William IV to order his Ingolstadt professor Johann Eck to declare a cease-fire in the theological debate. In the end the influence of the company trumped that of the chapter, and Eck was put back in action. Fugger was initially sympathetic to the idea of reform in the Church, but by the time Cajetan broke off discussions with Luther, reform had been replaced by revolution as the driving issue. Jakob understood the radically revolutionary nature of the forces arrayed against him and how they were completely incompatible with what he stood for. Luther, who most probably started out as a sincere reformer, could not resist the revolutionary undertow and soon got swept away by it. Luther picked up the revolutionary rhetoric from Hutten or from the Nuernberg humanists or from the Augsburg literati. As the reformist movement morphed into revolution, the antipathy against the Fuggers reached ever wider circles.

While the Fuggers were haggling with Charles over the details of his debt repayment plan, Ulrich von Hutten was involved in negotiations of a different sort. On his way back from Italy, Hutten met the then 18-year-old Kunigunde Glauberg on a trip to Frankfurt and decided to marry and settle down.¹⁹ Hutten had taken the Fuggers' guayak wood cure in 1518 and so may have considered himself cured. If not the proposal was unconscionable. Luckily for Kunigunde, all of the talk came to nothing. After reading his tract on syphilis, Kunigunde's family decided to take a pass on Hutten as a son-in-law. In September 1520, Kunigunde married the Frankfurt patrician and jurist Adolf Knobloch.²⁰

The rejection seems to have unhinged Hutten. Shortly after Hutten's plans to marry the daughter of the Frankfurt merchant fell through, the incident was still painful enough to incite more knightly hatred against the *haute bourgeoisie*. On the other hand, the syphilis may have entered its tertiary stage and started to affect his brain. Whichever was the case, Hutten started wandering again, writing anti-Roman tracts which became progressively more violent. The normal appeals, "Let us fight for general freedom and liberate our oppressed Fatherland,"²¹ were becoming progressively more incendiary. Now Hutten was telling the Germans that they needed to take the struggle against papal tyranny by "burning these bastards. Let them all burn even if I have to burn with them." Hutten's rage for destruction knew no limits now, not even self-immolation. It's hard not to hear in this cry the despair of a man who felt that he no longer had anything to lose.

In this exalted state of mind, Hutten traveled to Cologne and paid a visit to the adventurer, astrologer and black magician Agrippa von Nettesheim, who could only shake his head in disbelief after listening to Hut-

ten's revolutionary plans. Agrippa agreed with Hutten that their only hope lay with the emperor, but after doing his horoscope, Agrippa claimed that Saturn was making himself threateningly apparent.

The next stop in this revolutionary's progress was Leuven, where Hutten, whose accommodations along with 100 gulden spending money were provided by the emperor, met with Erasmus, who later described their conversation in the following way: "He began by saying that it was time to declare war on Rome. At first I thought the man was joking. . . ." According to Erasmus, the whole project was so overheated and dangerous that even if it were justified, only a fool could embark on something so hopeless. "My job is to promote learning by my nightly lucubrations. And so I advised him not to get involved in something like this, even if others did."²²

Erasmus, who had yet to take sides in the battle which would divide Germany for centuries to come, was proving cooler to Hutten than Luther, who was becoming increasingly intransigent in his dealings with Rome. Hutten's propaganda was having its effect. Hutten and his fliers were proving to be more dangerous than Luther, who was finally excommunicated on January 3, 1521.²³ But a strongly anti-Roman feeling was spreading through the Imperial diet. Hutten, who was three years from his premature death at 35, would have to content himself with more modest battles. When Charles V returned from England to Brugge on July 25, Hutten was among the spectators, but his status as poet laureate did not facilitate an audience.

After Charles arrived in the Holy Roman Empire, a contract for the paying off of this debt was concluded on May 4, 1521. The contract with the Kaiser was a crucial turning point as well because in order to get the rest of the debt paid off, the Fuggers were dependent on the Emperor's Spanish estates as a source of income.²⁴ Fugger, the man at the eye of the storm, remained intellectually unaffected by the theological storms besetting the empire. He preserved his original position so unreservedly that it was as if Luther had never mounted his attack on the efficacy of works or had not given voice to his critique of the Catholic doctrine of purgatory. As a true and conscious son of the ancient church, Fugger claimed three months after the Diet of Worms that it was "salutary and fruitful . . . to intercede to the Almighty God for the poor souls that have died and are buried, so that they through such actions as well as by giving alms, having masses said, and other good works, might be released from the prison of purging fire."²⁵

After leaving Brugge, Hutten returned to Leuven, where he claimed to have encountered the Inquisitor Jacob von Hoogstraeten. He then claimed that he engaged the Inquisitor in an actual physical battle and, after having vanquished him, agreed to spare his life. The story sounds improbable. One symptoms of tertiary syphilis, when it has taken up residence in the brain, is delusions of grandeur, often associated with an especially ambi-

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tious project, which the victim sees as the culmination of his life's work. Hutten's war with Rome seemed to be just such a project. Before long, Hutten would persuade Franz von Sickingen to embroil himself and the German speaking principalities in this syphilitic fantasy.

Hutten found refuge in Sickingen's castle from May until the middle of October 1522.²⁶ During that time, Hutten wrote his last poem in German. The 250 verses of "*Vermahnung an die freien und Reichstaedte deutscher Nation*" addressed the lower nobility in their own language in an attempt to bring them around to supporting Sickingen's Fall military offensive against Trier. In his "*Klag und Vermahnung gegen die uebermaessige unchristliche Bapstes*," which appeared in the fall of 1520, Hutten added the pope to a list of enemies of the German people which included those who promoted luxuria in German cities, those who engaged in the import trade (Hutten claimed mistakenly that the Fuggers were heavily involved in the spice trade), capitalists and their monopolies, and "hateful hucksters" in general. To this list, Hutten now added the princes and the upper nobility. The purpose of the poem had was getting the knights to rally around Sickingen's banner, and the large influx of knights from Franconia which took part in Sickingen's Trier campaign shows that Hutten's efforts as a propagandist were not without their effect.

The problems which followed may have had their ultimate source in Hutten's "los von Rom" fantasy, but their immediate source was Sickingen's poor strategy. Instead of using surprise, Sickingen wasted six precious days subduing neighboring villages.²⁷ When he began the bombardment of Trier on September 8, 1522, he did so without any attempt to foment the revolution of the worker and peasant classes in the town. Without the support of the fifth column within the walls and lacking artillery powerful enough to breach them, Sickingen's siege faltered and then failed when Philip of Hesse and Ludwig of the Palatinate came to the archbishop of Trier's aid on September 14. What followed was the rout of Sickingen's troops.

Sickingen had never been anything but a German *condottiere* until Hutten's syphilitic delusions of grandeur convinced him that he might become a ruler of a Rhenish kingdom. Once the two counts counterattacked, Sickingen's dream of his own state dissolved like smoke on a windy day. After most of the mercenaries in his pay deserted him, Sickingen fled from one of his castles to another with a small retinue of followers. In each instance, Philip's artillery accomplished there what Sickingen's could not in Trier until finally Sickingen stood with his back to the wall at his headquarters in Ebernburg. Ebernburg's walls proved no more resistant to Philip's cannons than Sickingen's other fortresses, and he was hit by a shell which ripped open his side exposing his heart and lungs. The three princes (Trier, Pfalz, and Hessen) shelled and then took Ebernburg, and during the battle

Sickingen suffered severe wounds which proved fatal on May 7, 1523.²⁸

Hutten first heard of Sickingen's death in Muelhausen, where he had taken refuge in May 1523.²⁹ When the end came, Hutten was already gone. There is no extant account of how the two failed revolutionaries took leave of each other. It was only the thick forests that covered the mountainous region of the Palatinate that allowed Hutten to escape the notice of the marauding soldiers of the three warring princes.³⁰ Because of his infirmities, Hutten, who tried his best to live up to the martial behavior which his class aspired to, could not take part in Sickingen's final campaign. Hutten, the man whose pen turned the reformation into a revolution, was now without a patron in a world which no longer looked upon the German uprising as a quarrel among monks. After his failure to bring Luther back into the fold during their meeting at Fugger's house in Augsburg, Cajetan now demanded that Ferdinand protect the empire against the "muhammedan" attacks of Hutten which were worse than the predations of the Turks.³¹ In addition to being ravaged by syphilis, Hutten was now a wanted man.

Hutten's father died in the early months of 1522 so his financial situation wasn't critical, but he gave up his rights as first-born so that the family property would not be seized by the authorities seeking to arrest him.

In November 1522 Hutten left Germany and went to Switzerland, where neither the pope nor the emperor nor the princes could apprehend him. There was a significant émigré colony in Basel and Hutten was honored when he arrived there by being given Welcome-Wine, something only offered to distinguished visitors like Hutten, who was still imperial poet laureate even though the Empire had put a price on his head. Hutten ended up in Basel largely because his mentor Erasmus was living there, but when he found Erasmus's house Hutten walked up and down outside it in the company of other Baseler humanists but could gain no entry. Erasmus later claimed mendaciously in a letter that he would have received Hutten if Hutten had sought him out. Then contradicting that account, Erasmus wrote that the problem lay with their conflicting maladies. Hutten needed the warmth that the Kachelofen provided; but Erasmus found that warmth unbearable.³² Hutten became furious when he learned of Erasmus's lame excuse for not seeing him, and as was his custom, Hutten wrote a poem denouncing the perfidy of his now-former mentor.

Without having seen or spoken to Erasmus, Hutten left Basel after seven weeks stay to travel to Muelhausen, which had allied itself with the Swiss on January 18, 1523. Because of his disease, Hutten was having increasingly frequent episodes of disorientation, notwithstanding many intervals in which he could think and act clearly. In his moment of need, Hutten was taken in by the Augustinians in Muelhausen. At moments like this, irony vies with pathos as the observer's dominant emotion. The man who did

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everything within his power to destroy the old order could only find refuge at the old order's quintessential institution, the monastery, whose primary function was to provide hospitality. Hutten hated the Fuggers and their capitalism, but no one did more to destroy the pre-capitalist world of the monastery than Hutten himself.

Hutten then moved on to Zurich, where the Reformation was taking political form.³³ In a letter dated July 21, 1523, Hutten wrote that "I had to flee to Switzerland and the end of my exile is still not in sight." Hutten's temperament combined choleric and sanguine humors in equal amounts. He was constitutionally incapable of melancholy, no matter what his circumstances. He was also tone-deaf when it came to religious issues and in keeping with the pagan tenor of his humanism all Hutten could do, in spite of all his sorrows, was place his hope in the pagan goddess Fortuna. "O Eoban," Hutten wrote to his friend Hesse,

I think that . . . we have courage enough to withstand her rolling the dice. . . . In exile I came to the Swiss, and I'm afraid of further exile. Germany in her current condition can't put up with me, a situation which I hope to change by driving out her tyrants. . . . Fortuna has led me out of tumultuous storms back into the quiet of my studies.³⁴

In May Hutten was forced to flee Muelhausen in the dead of night and take refuge with Huldrych Zwingli in Zurich. But after Erasmus wrote a letter claiming that Hutten would damage the reputation of the reformers, they asked him to leave. The Reformation, which his writings had done so much to unleash, wouldn't take him in either.³⁵ In a letter to Spalatin dated August 23, 1523, Melanchthon dismissed Hutten's attack on Erasmus as "nothing more than dirty blackmail." Claiming that the knight had both an "evil spirit" and an "evil soul," Melanchthon ended his attack by claiming that Hutten "now spends his time disporting in taverns."³⁶

In June he was able to take the cure at the baths of Wildbad Pfaefers, praised by Paracelsus, where he received kind treatment from the Benedictine abbot Russinger. Unfortunately, heavy summer rains had cooled the hot springs and robbed them of their medicinal benefits. The Benedictines then put him up at Einsiedeln. At the beginning of August, the now terminally sick Hutten moved to a new dwelling on the "happy island" of Ufnau—once again to be taken care of by a religious order.

According to an account written in October by Basilius Amerbach, "Fall proved fatal for Ulrich von Hutten. When he was struck down once again by the old French disease, he wanted to do something to regain his health and so he sent for doctors. They could achieve nothing with their medicine and returned home after his death on September 1." Hutten died on August 29, 1523, alone and abandoned to the "French disease." He was 35 years and four months old.³⁷ Difficulty in swallowing hastened his end.

His corpse was buried in the cemetery in Ufnau. By the end of the 16th century the exact site of his grave was no longer known. His family died out in 1577.³⁸

Endnotes

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- 2 Von Poelnitz, *Jakob Fugger*, p. 412.
- 3 Von Poelnitz, *Jakob Fugger*, p. 434.
- 4 Von Poelnitz, *Jakob Fugger*, p. 438.
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- 6 Von Poelnitz, *Jakob Fugger* p. 439.
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- 8 Von Poelnitz, *Jakob Fugger* p. 441.
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- 10 Von Poelnitz, *Jakob Fugger* p. 451.
- 11 Von Poelnitz, *Jakob Fugger*, p. 455.
- 12 Von Poelnitz, *Jakob Fugger* p. 461.
- 13 Von Poelnitz, *Jakob Fugger* p. 462.
- 14 Ibid.
- 15 Von Poelnitz, *Jakob Fugger* p. 409.
- 16 Carlheinz Graeter, *Ulrich von Hutten: Ein Lebensbild*, (Stuttgart: Konrad Theiss Verlag, 1988), pp. 135-6.
- 17 Goetz Freihorrrn Von Poelnitz, *Anton Fugger 1. Band*, (Tuebingen: J.C.B. Mohr, 1958), p. 55.
- 18 Von Poelnitz, *Anton Fugger* p. 51.
- 19 Graeter, p. 171.
- 20 Graeter, p. 172.
- 21 Graeter, p. 174.
- 22 Graeter, p. 175.
- 23 Graeter, p. 208.
- 24 Von Poelnitz, *Anton Fugger*, p. 66.
- 25 Von Poelnitz, *Jakob Fugger*, p. 473.
- 26 Heinrich Grimm, *Ulrich von Hutten: Wille und Schicksal* (Zurich/Frankfurt: Musterschmidt Goettingen, 1971), p. 124. All translations mine.
- 27 Grimm, p. 125.
- 28 Grimm, p.126.
- 29 Grimm, p. 127.
- 30 Grimm, p. 125.
- 31 Grimm, p. 126.

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32 Otto Flake, *Ulrich von Hutten*, (Frankfurt am Main: Fischer Taschenbuch Verlag, 1985), p. 333.

33 Flake, p. 338.

34 Grimm, p. 131.

35 Flake, p. 342.

36 Grimm, p. 131.

37 Ibid.

38 Grimm, p. 134.

Chapter Twenty-Eight

The Fuggers are Indicted

In 1523, the year in which Hutten and Sickingen died, the imperial finance ministry indicted the Fuggers, the Welsers, the Hochstetters and three other Augsburg firms for monopolistic practices. A consensus had been forming in both the imperial bureaucracy and academe that "Fugger's economic principles and his business practices, especially his formation of cartels and his monopolistic tendencies, and made him responsible for the increases in the prices of metals, spices, etc."¹

The imperial officials were reacting to the economic upheaval which has come to be known as the price revolution of the 16th century. Prices were rising, and no one knew why. The initial reaction of most princes was to debase the currency, but that only postponed the problem and made it worse. The princes were, however, correct in seeing that the problem lay with the money supply. The price revolution of the 16th century followed closely on the heels of the great bullion dearth of the 15th century and the latter was a function of the former. Beginning with the new-found access to the markets of the East, which the Portuguese navigators had discovered by sailing around Africa, Europe was flooded by goods—spices, in particular—which only money could buy. In labor-based economies like those in the principalities of the Holy Roman Empire, the demand for money came at the worst possible moment, when the bullion dearth was at its peak. The result was a rise in prices because the money supply was unable to keep up with increased demand.

The rise in prices was exacerbated by the constant state of war which characterized this period. Since peasants did not fight, there was no such thing as a citizens' army. Fighting was reserved for knights, but knights like Ulrich von Hutten had been reduced to penury because of the price revolution, which meant that they would now only fight for pay (Soldier has its root in *Soeldner*, which means mercenary, and comes from *Sold*, which means pay. A soldier is someone who fights for pay.) The need to pay troops only exacerbated the situation created by the bullion dearth and contributed to the price rise which was causing so much upheaval. Inflation, Bernstein reminds us,

has always appeared during wartime, when spending leaps ahead and production of peacetime goods and services tend to fall. Tacitus wrote that "*Pecunia*

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nervus belli" (Money is the sinew of war), and there was not a single year of complete peace on the European continent during the one hundred years from 1551 to 1651. The fiscal problems of financing these wars were intensified by the character of the 16th century tax system, which put almost all the burden on the lower classes.²

The financial crisis which the price revolution created in the 16th century threatened the social order of Christendom:

The shock of sustained inflation to the inhabitants of Europe in the 16th century was shattering. They had no prior experience with it, no good economic theory to explain it, and no established rules of behavior or policy with which to manage it. There had always been brief episodes of inflation in response to crop failures, but the Price Revolution of the 16th Century persisted for more than 100 years before it tapered off at long last. No other inflation in history had been so stubborn.³

The shock of sustained inflation undermined the labor-based economy of the Holy Roman Empire. The pressures of the money economy proved inexorable. When the lower nobility, who were often in debt to merchant-bankers like the Fuggers, found themselves in danger of default, they increased their demands on the peasants, whose wealth was in the food which they could raise, which was dependent on variables like the weather and in no way equal to the constant and voracious demands which compound interest could exact on their lords. Forcing the peasants to pay their taxes in money only exacerbated the situation by driving up the demand on what was already a scarce commodity.

The princes who could not grind enough money out of their peasants to keep up with their interest payments invariably debased the currency. In 1523, the Spanish Cortes urged Charles V to reduce the gold content of Spanish coins in order to curtail the distressing outflow of their highly valued coins to other countries. That way, they could mint a larger number of coins with the same amount of gold. Charles waited until 1537 to take the step; the magnitude of his needs is apparent from his decision to make this move even after Cortes and Pizarro had provided him with what looked like a bottomless pit of gold bullion. Other rulers followed suit. Henry VIII's policy from 1542 to 1547 was so blatant that his move became known as The Great Debasement. Henry's debasement was a direct result of the war with France in the 1540s, when he "worked the Mint for all that it was worth."⁴

The princes correctly intuited that the source of problem lay in a deficient supply of money, but they were wrong in how they attempted to solve the problem. As the population of Europe rebounded after the Black Death of 1348-9, the money supply should have increased correspondingly. The princes and the oligarchs in places like Florence were blinded by the *auri*

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sacra fames, the accursed lust for gold. They were further blinded by the fact that they saw gold and money as one and the same thing. Gold, as a result, became the straitjacket that constricted the economy. The princes made matters worse by wanting to be sole beneficiaries of the increase in the money supply because they needed to double their money to get out of debt. If they had doubled the money supply by doubling wages, the problem would have solved itself. More specifically, they should have increased the money supply in direct proportion to the increase of population, because that would indicate that the source of growth in the economy comes from labor. Instead they tried to solve their monetary problem by cheating the worker, and that led to political unrest at a time when the old order was particularly vulnerable to political upheaval.

Ederer claims that the evolution of money was driven by the economic limitations which first barter and then precious metals imposed on ever-expanding commerce.⁵ Money became more and more what it was, which is to say, "a functional device designed to facilitate exchange."⁶ This, however, is precisely not how it was perceived at the juncture of the great bullion dearth of the 15th century and the great price increase of the 16th. Because money was gold (or silver) it was perceived as wealth itself, and once it was perceived this way it began to hinder rather than facilitate exchange. Gold is a good store of value, and it is ideally suited for hoarding. It is also soft and because of all of these qualities it is not particularly good as a medium of exchange. Faced with any uncertainty, the owners of the gold were ready to pull it out of circulation and hoard it at a moment's notice, with unfortunate results for economic growth and exchange. The problem with the mercantilist system is that it was based on hoarding gold, to the detriment of economic growth based on exchange. It was an economic system at war with itself. Hence, it should come as no surprise that the countries who followed this system were constantly at war with each other as well.

As economic sophistication grew, the material composition of money "gradually became less important than its general acceptability."⁷ Once that happened, government sanction (rather than the intrinsic value of the material out of which the money was made), along with the requirement that it be accepted in payment for all private and public debts - the legal tender provision - normally assured its circulation." Ederer claims that precious metals had serious defects as a medium of exchange. Hard use, combined with "deliberate abuse like clipping and sweating" as well as wear and tear, combined with the tendency to hoard that gold naturally facilitated, made the money supply shrink all by itself at the very moment when it needed to expand. Eventually modern merchants dealt with the problem by having their coins assayed and deposited in banks where they were credited to their accounts. Once their money was safe in the vaults of the bank, these

merchants "could then, orally or in writing, direct the banker to transfer funds to the accounts of others with whom they did business." The banks, for their part, realized that they could lend out the same deposits at interest, thus doubling the money supply by using it twice. According to Ederer, "usury was institutionalized by this takeover, since money created by banks and loaned out at interest involved no significant cost to the lender – the criterion that the late medieval usury analysts presented as legitimate grounds for charging interest."

Once money was liberated from its association with precious metals, it could be fine-tuned to facilitate the exchange which was its main purpose. That meant making periodic increases in the money supply, but not the sort that caused inflation in the way that the princes' debasement of their own coinage had. The key to calibrating the money supply correctly could be found in linking it to the true source of wealth, which was not gold, not even gold in reserve, but labor. A growing economy requires periodic additions to the money supply. The alternative is deflation, with its attendant difficulties and injustice. Ederer points out that:

An increase in the number of people at the national table, who need to buy the increasing volume of goods and services they are able to produce, calls for more money to exchange among themselves that greater volume of goods and services. In certain respects the economy is like the popular board game, Monopoly. You cannot simply double the number of players without also increasing the distribution of play money. Otherwise the game is stifled. Among other things the properties would probably all have to sell for lower prices than would be the case with fewer players. In like manner, all card games require that when more players join the game more cards are dealt. Allowing for the limitations inherent in most analogies, one can nevertheless detect therein a relatively simple and sound criterion for increasing the money supply without causing a harmful increase in prices, i.e. inflation. An increase in population involving eventually a correlative increase in the size of its productive work force, calls for more money to circulate in the economy. That will at the same time offset the greater volume of goods and services which a larger population and work force gives rise to, so that there need be no harmful change in the general level of prices. The latter would imply a change in the value of money which, in addition to serving as the medium of exchange, is also supposed to be a standard of value as well as a store of value. As we could not tolerate a constant change in the standards of weights and measures, i.e. ounces and pounds; inches and yards, we should not have to suffer the grave economic injustice which stems from changes in the value of our dollars and cents. In addition, money is expected to temporarily store the value that we surrender when we accept it in exchange for goods and services, until we are ready to purchase with it something of equivalent value. In addition, there is a sound underlying economic rationale behind creating additional money in a society on the basis of its population. A growing population would thereby bring with it an appropriate social bonus – an addition to the revenue side of the national budget which could diminish the tax revenue required. There is nothing sinister

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or uneconomic here. An increase in population with an attendant increase in its work force represents an increase in the most critical determinant of a nation's wealth. The major economic system-builders, Adam Smith, Karl Marx, and also Heinrich Pesch, S.J., the architect of solidarist economics, all recognized the fact that the work of human beings is the most basic and essential factor of production. However they carried their awareness to radically different conclusions.

The money supply should reflect the labor which is the basis of the economy and the ultimate source of all value. The great economic system builders recognized this, but the philosophical systems which served as the foundation of their economic systems often prevented them from following the labor premise to its logical conclusion:

Smith, brilliant but often errant and inconsistent, let his preoccupation with individual self-interest distort his otherwise sound notions about the basic source of the wealth of nations--labor--and the way people divide it to make their work more effective. Marx exaggerated labor one-sidedly as the source of all economic value, to the extent of dismissing the other factors of production (natural resources and capital) and engendering abiding deadly conflict among the classes which own and provide them. Pesch presented "human intellectual and physical labor power" as the "main efficient cause (*causa efficiens principalis*) of production and of products" (*Lehrbuch/Teaching Guide to Economics*, IV, 2, p. 355); and he followed up by affirming that the worker alone, among the factors of production, "remains the subject and goal of economic activity." That approach in turn provided the basis for his just wage principle.

Inflation, according to Ederer, "often happens in a nation suddenly in need of funds after it gets involved in serious prolonged warfare."⁸ Bernstein, following Adam Smith, claims that "The discovery of the abundant mines of America seems to have been the sole cause" of the price revolution of the 16th century; "there has never been any dispute about the fact or the cause of it."⁹ Bernstein claims that Smith based his conclusion on:

a remarkable piece of economic research in 1568 by a French observer named Jean Bodin, who went all the way back into ancient history to demonstrate how rising amounts of gold and silver were associated with higher prices. He pointed out that the prodigious inflow of precious metals from America had landed in Spain and that prices in Spain were higher than in France and Italy: "Spain is rich, haughty, indolent . . . It is . . . the abundance of gold and silver that causes in part the dearth of things."¹⁰

Bodin was, according to Bernstein, "the spiritual father of monetarism," an economic theory whose most important modern representative is Milton Friedman, founder of the Chicago School, who thought that inflation "is always and everywhere a monetary phenomenon." Monetarists, again according to Bernstein, "contend that the Price Revolution of the 16th Century would never have endured for such a long period of time had it not been nourished by the increased money supply produced from the New

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World's gold and silver bullion." Ederer disagrees:

Precious metal supplies from the mines and treasure troves of the New World could provide only a small and unreliable portion of the money needed to lubricate the growing commercial activity in the modern world - a world progressing from a Commercial Revolution to an Industrial Revolution, with a radical Financial Revolution eventually complementing both of these! Governments which could have provided such necessary increases in the money supply were superseded by bankers who thereby became a formidable force in the emerging capitalist era. What is more, by the time that supersedure took place, the economic science, still in its infancy, had not yet provided any rational norm for the issue of money by the public authority which, in principle, is the rightful creator of money emancipated from gold and silver stocks. Therefore, bankers took over the money issue function both by stealth and, to a degree, by default.¹¹

No amount of precious metal can keep up with the productivity of human labor. Similarly, no amount of precious metal can keep up with the compound interest accruing to the money which the Habsburgs borrowed. Whether looked at from the point of labor and a legitimate economical system or from the point of usury and an illegitimate system, gold and silver were going to prove inadequate as a money supply. Even if it were responsible for the inflation at the end of the 16th century, the treasure from the New World could not have been responsible for the upheavals in Germany during the first quarter of the 16th century because the money hadn't arrived there yet. As Bernstein points out:

Although prices started rising around 1470 and were climbing throughout Europe by 1500, American gold did not arrive in Spain in any significant quantity until 1520; the Peruvian discoveries took place after 1530, and the big silver discoveries did not begin to bear fruit until about 20 years after that. The relationship continues to be confusing after 1600. The imports of gold and silver to Seville appear to have peaked about 1590, to have remained at a high level for another 30 years or so, and then to have fallen off precipitously from around 1620 to the end of the century. Yet prices kept on climbing, at rates that seemed to bear no relation to the arrivals of fresh supplies of the precious metals. In England, for example, prices doubled between 1600 and 1650.¹²

The inflation of the 16th century was caused by an increase in population, which was compounded by an increase in the productivity of that increased population due to new industrial techniques, all of which were held in check by a money supply which was confined to precious metals. Everything cost more because there was so little gold to buy anything. And even after the gold started flowing in from the New World, which happened roughly a quarter of a century after the upheavals in Germany, there wasn't enough of it to compensate for two centuries (1347-1547) of increased population and even more dramatic increases in productivity. The main reason for the rise in prices was the unnatural constriction of the money

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supply which a precious metals economy brings about, compounded by a severe shortage in those metals. On the micro level, the opposite was the case, something that became more apparent when the gold from the new world began to pour into Spain. But the phenomenon itself, i.e., gold extinguishing labor and, therefore, causing a diminution of wealth happened before the gold started to flow into Spain from the New World.

One of the great triumphs of the Fugger-Habsburg collaboration was Charles V's victory in 1525 at the Battle of Pavia, at which Francis I, the King of France, was captured. To get their king back, the French agreed to pay an enormous ransom of 1.2 million crowns. The sum was so enormous that it took four months just to count the coins. The victory couldn't be called Pyrrhic, but the result was paradoxical because:

The enormous transfer of gold put a painful squeeze on the French nobility, clergy, and taxpayers while stimulating a wave of spending in the Spanish economy. As a result, prices in Spain were soon higher than prices in France. The resulting disparity in prices produced such a surge in French exports to Spain . . . that the transfusion of gold and silver was running in reverse as monies returned to the French side of the border.¹³

An individual who came into a large amount of gold could bid up prices, but once the gold left his possession he ended up impoverished if the money was not spent to create labor-producing property. Since the Spaniards now had gold, which they construed as wealth, they felt that they didn't need to work, which meant that the wealth drained out of their country with every purchase. The abundance of gold was only half the story. The disregard of labor was the point no one got. It was responsible for all of the other paradoxes.

No matter how complicated the situation was, no matter how multi-valent the causality, the Fuggers were blamed for the rise in prices. In the Articles of Merano, issued at Pentecost 1524, the farmers from the southern Tyrol, demanded "that these concerns, whether big or small, be abolished," so that wares could then be bought with "an honest penny" and bring the prices down. In particular they demanded that "the Fugger, the Hochstetter, and the Welser, be banned from dealing in silver, so that it could be driven down in price." The Innsbruck legislature also handed down indictments against the Fuggers. In Halle the Fuggers' offices were looted, and in southern Tyrol the main traffic links with the south were blocked. The group that was most directly affected by the big commercial firms complained less against the "Capitalists" than the local commissariat.

Discontent grew among the peasants, and the writings of Hutten and Luther aggravated their sense of economic grievance. The miners didn't just rise in revolt in Slovakia in 1525; they rose in the Tyrol as well. While the uprising in the Neusohler mines had to do with demands for higher

wages, the uprising in the Tyrol took place in the context of the rising of the common man most often known as the Peasant Revolt. Demands for religious renewal got mixed in with complaints about the economic and social situation. Alongside complaints aimed at the aristocracy, the clergy, the local feudal lord and his advisor Gabriel Salamanca, the miners aimed criticism against “usurious” and “monopolistic” practices of the big commercial houses.

The Fuggers claimed that only a monopoly in areas like silver mining could provide the returns that justified the high investment needed to get the ore out of the ground, refined, and to market. The economy could only expand if precious metals were available, and that meant serious investment of capital in the mining, and the only possible way of continuing and increasing the investment of capital in mining, to the benefit of the whole German economic system, was to ensure that capital achieve a high return, and one as regular as possible, to compensate for the risks involved. Monopoly alone provided such a return. The Fuggers defended monopoly as a protection against those injuries which a great variation in the price of mining products and the withdrawal of capital from unprofitable mines would work upon the laboring population concerned.¹⁴

The indictment handed down by the imperial court in 1523 combined with the unrest among the peasants to put Charles V in a bind. If he reined in the Fuggers’ his credit would dry up; they could also call in their loans, which would mean financial ruin. The Fuggers were also the only ones who could finance the crusade against the Turks. If anyone were in a position to prosecute the war against the Turks successfully, then the most likely candidate was the West united under the emperor and the universal church, both of whom were backed by big capital with international connections. That’s how Jakob saw his world. In the last days of Hadrian VI, Cardinal Cajetan was busy using Fugger money to reinforce the Hungarian defenses against Islam. To do that the Church needed Jakob’s money.¹⁵

On March 25, 1525, Charles V issued the Edict of Madrid, ending the two years of suspense which the imperial indictment had created. The edict cleared the Fuggers of all charges. There was no revision of the laws against monopoly much less were they removed from the list of financial crimes like fraud and counterfeiting. However, the previous arbitrary expansion of the concept of monopoly was halted, and from then on only those which were listed explicitly in the constitution were going to be punished.¹⁶ Charles didn’t claim that the Fuggers were not engaging in monopolistic practices, he claimed instead that their monopolies were good for the empire. Charles V, in effect, made Fugger’s argument his own. Taking the Fuggers’ claim that there was no conflict in their mining operations between self-interest and the common good, Charles characterized the German mining indus-

The Fuggers are Indicted

try as “the greatest gift and of the greatest usefulness” to the Holy Roman Empire, and the big firms insured through their activities the livelihoods of hundreds of thousands of subjects. Stable prices for precious metals were therefore in the interest of the common good.

The Edict of Madrid showed Charles’ gratitude for the work of the upper German banks, who were given letters of protection. The Edict of Madrid made Jakob’s right to monopolistic concentration in the mining industry secure. Even if the decree didn’t mention him personally, it was clear that the emperor had him in mind when he mentioned silver, copper, and mercury because no one was involved more than Fugger.¹⁷ It also constituted a significant milestone in the movement of the German economy away from constricted medieval protectionism toward the individualistic principle of freedom of the modern entrepreneur.¹⁸

Charles felt bound to make sure that the battle against rising prices and monopoly did not lead to a constriction of state-run businesses which grew out of the metal contracts the Habsburgs had signed with the Fuggers because

the mines which have been established in the Holy Roman Empire more than anywhere else in Christendom. . . possess great utility.” For this reason the Almighty has granted to German lands, not just for great treasure but so that out of the plethora of gold, silver, copper, tin, mercury, lead, iron and other metals, which reaches in the vicinity of 20 million gulden yearly when they are mined and processed, they also provide a living for one hundred thousand workers in German lands. When the money that gets earned on taxes, exchange, duties, etc. gets added in, they are so serviceable that they need to be protected.¹⁹

The praise was fulsome, but the statistical particulars of the emperor’s argument had all come from the briefs filed by Fuggers.²⁰

With the Edict of Madrid, Fugger got what he needed to make his legal case before the treasury, the army and the Imperial Diet; he was granted a clear amnesty for his earlier dealings and a secure guarantee for the future. The Edict was Charles’s response to the princes’, the cities’ and the knights’ attack on the monopolists and their metal contracts, which his house could not or would not do without.²¹ Jakob knew why Charles let the sun of his grace shine on him. It wasn’t just out of gratitude for those days in Frankfurt and Pavia, and the decisions of 1519 and 1525, which bound his fate to the firm.²² It was also because Charles needed their help in the future. In fact, it was an admission that the Emperor couldn’t deal with the problems confronting him without their help. Charles’s decision was welcome news to the Fuggers, but it fueled the fires of resentment which Hutten and Luther had stoked among the peasants, who were now ready to translate their grievances into action.

Endnotes

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- 2 Peter L. Bernstein, *The Power of Gold: The History of an Obsession* (New York: John Wiley, 2000), p. 148.
- 3 Bernstein, p. 147.
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- 5 Rupert J. Ederer, "A Primer for Money," *Culture Wars*, March 2008, p. 8ff. All citations from Ederer refer to this article.
- 6 Ibid.
- 7 Ibid.
- 8 Ibid.
- 9 Bernstein, p. 150.
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- 12 Bernstein, p. 151.
- 13 Bernstein, p. 152.
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- 15 Goetz Freiherrn Von Poelnitz, *Jakob Fugger: Kaiser, Kirche, und Kapital in der oberdeutschen Renaissance*, (Tuebingen: J.C.B Mohr, 1949), p. 569.
- 16 Von Poelnitz, *Jakob Fugger* p. 556.
- 17 Von Poelnitz, *Jakob Fugger* p. 562.
- 18 Von Poelnitz, *Jakob Fugger* p. 557.
- 19 Ibid.
- 20 Von Poelnitz, *Jakob Fugger* p. 558.
- 21 Von Poelnitz, *Jakob Fugger* p. 564.
- 22 Von Poelnitz, *Jakob Fugger* p. 563

Chapter Twenty-Nine

The Peasant Revolt Comes to Augsburg

Over Christmas of 1524 the gospel in its Lutheran redaction began spreading from Ulm to the Swabian imperial cities.¹ The religious and social tensions had now reached a critical juncture. Fugger blamed the Reformers for the truculent mood among the local peasants. At the beginning of 1525 Fugger explained the situation to the Duke of Sachsen-Leipzig, "The peasants in our district acted almost without exception under the aegis of the word of God and the evangeli. Truly, Luther is the beginning and cause of the rebellion, upheaval and bloodshed in the German nation, no matter how much he dissembles so that people miss making the connection." In his sharp attacks on Luther, Jakob professed once again his belief in the unimpeachable validity of the existing order, laws and powers. Fugger never understood how he himself had exploded this order, and how many of those whom he termed rebels were trying to restore despairingly what was irrevocably gone, and how they had fought for ancient rights and the economy that once was.² Fugger's conviction of the internally static nature of the world remained until a few months before his death.

Although Luther felt that he was doing nothing more than preaching the gospel, the peasants understood his message more in a social than a religious sense. The pastor of Leipheim became an enthusiastic adherent, removed the icons and changed the services. The authorities crushed similar movements in Klettgau and Schwarzwald, but after a long pause the peasantry on the Fugger lands began to sympathize with the rebels who wanted to change the social order from the ground up by inaugurating an evangelical regime. These events fulfilled Jakob's words, "it has most of all to do with the notion that the canaille want to get rich without working. The peasants want to be duty free."

In 1525 the Anabaptists took up the cry of Luther and Hutten. Eberlin von Guenzberg applied the new evangelium to finance when he claimed not far from the Fugger possessions at Kirchberg and Weissenhorn that Fugger and his usury were a disaster for the German nation and "conceived by the devil." Von Guenzberg was echoing the complaints of fellow knight Hutten. In circles pained by their loss of prestige, it was impossible to forgive the Augsburger bourgeoisie for the fact that the noble families were in debt to them. In the past Jakob had received papal bulls enabling him to deal in benefices and the indulgence trade and as a result he came into conflict with the Reformation's effect on the humanist knights, as embodied by

Ulrich von Hutten. The knights dismissed the Fuggers in the same breath as the Medici as “noble merchants but not noble by birth.” Neither Charles V nor Ferdinand would support the Knights’ complaints against the legally binding documents of the big financiers. Individual families sought relief from the courts in vain. The court counsel supported Fugger because the crown couldn’t get along without him. Even the proudest clans came on bended knee to the Fuggers in the years following Sickingen’s death.

In spite of his initial sympathies with the reformers, Jakob, challenged by Luther and Hutten and their local followers, decided that the time of hesitation was over. The time had come to throw his lot in with Charles V’s war against the reformers. Fugger’s personality was a curious combination of medieval piety and capitalist calculation. He was a deeply devout Catholic, and yet he sounded like a Calvinist when he wrote, as no merchant before him had ever dared to write to one of the most eminent German princes, I “am rich by the grace of God.” In the fall of 1525 he wrote to his manager Hoegl in Cracow, “the new preachers are responsible for that, they who preach that man needn’t pay attention to human laws. That’s what the peasants wanted, they no longer wanted to obey their lords.”

The peasants allied themselves with the lower nobility and rose up against that triangular hierarchy of Church, Kaiser, and Capital. This *ad hoc* political configuration would be accepted as an unbreakable unit by the political Left for centuries to come, and it came about in reaction to Fugger and his relationship with the Habsburgs, which embodied the principle of order. The merchant opposed the autonomous conscience of the individual even though he was a trailblazer for the new capitalist order because he had become the most powerful protector of the late medieval world and its universal structure.

The situation in the Tyrol posed the most serious problems.³ When representatives of the rebellious upper Swabian peasants arrived in the spring of 1525 and demanded that the miners join them, Jakob knew that he had to act.⁴ He could tolerate a revolution least of all in the Tyrol. The loss of these mines would have dealt the firm a fatal blow because in recent years there had been a dramatic increase in production in the Alpine area.⁵ The mob demanded that forfeitures be abolished, and that the archduke should expel “the miserly rogue” Gabriel Salamanca along with Fugger from the Tyrol along with forbidding usury. Obligatory labor and exchange in the county were to return to the modalities that existed under Archduke Sigismund der Muenzenreiche. Steeped in the rhetoric of messianic politics which Hutten and Luther had promoted in their broadsides, the miners and peasants were claiming that Fugger’s removal would inaugurate the return to a lost golden age.⁶ Everything which had changed since the days of Sigismund Moneybags, should vanish. The status quo ante should return.

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The Peasant and miner rebellion, whose first signs Ferdinand had pointed out to the Swabian League at the end of April 1525, was a protest against the clergy and the minor nobility as well as against the big firms and the princes. Like Ferdinand, the Fuggers presented themselves as defenders of this united front of State, Church and economy, against the rebellion of the peasants and miners, who were being egged on by the Swabians and the Venetians.

In expressing these desires, the critics weren't just handing down a negative judgment against the merchants. The local patriotism, which was supposedly to assist the princes in asserting their ancestral rights against the greed of the merchants and the bureaucrats, was at the same time a protest against the big power policies of the Habsburgs. Charles's global political system was no longer separable from the increasing interdependence between the mining operations of the Habsburg lands and the big banks. When the Tyrolean parliament did nothing to meet these demands and tried to keep these issues from being discussed in a general referendum, the people's anger grew and all that was needed was something insignificant to create lightning out these storm clouds.

The revolution broke out first in Brixen, where the social order was bound up with ancient financial arrangements which the great price rise had disrupted. The revolution found its leader in May 1525 in Michael Gaismaier the son of a woodcutter from Stertzing.⁷ Gaismaier had learned something about the business of mining and metal transport from his days as a customs official. He decided to eradicate them as mercilessly as he was planning to eradicate the aristocracy and the clergy. Under his direction, a cruel campaign came into being under the aegis of divine freedom and Christian fraternity on the south slope of the Alps. Around the same time that the peasants from Rattenberg and Thauer plundered the Fugger branch offices in Haller, the comrades in Bozen were debating whether to loot the Fugger offices or the Jewish quarter. It was only last minute intervention which saved the Buonconsiglio Castle and thereby Trent for the Archduke and bishop. The major commercial links with the south were cut off. No commercial shipments were making it through the passes; the rebellion continued. Wherever people spoke out, the complaints were almost formulae, demanding the removal of the Fuggers to suppress *Wucher* and *Fuerkauf*.

Over Pentecost of 1525, the south tyrolean peasants of Merano put their complaints in writing. In their manifesto they wrote, "Since there are so many big companies and since everything which we need to buy we have to buy from them, it is desirable that those companies, whether big or small, should be abolished. That would allow goods and services to be purchased at a reasonable price. Especially important is the ban on the involvement of

the Fuggers, Hochstetters, Welsers and other companies in the land in the silver trade, rather these people need to be put down." Not clear was how the Fuggers were responsible for the rise in price in silver in the Tyrol.

Wherever the Habsburgs turned, the call for the expulsion of the Fuggers from the Tyrol was universal. The Herzog was not going to let himself get stampeded. He was probably aware that Gasmaier was in the pay of the Venetians, which was made public after the rebellion had been put down, when the peasant colonel retreated to Padua where he retired on the pension provided by the Venetians.⁸ Venetian diplomacy had lost no time in exploiting the situation. The Venetian republic felt that the time was ripe to exploit local patriotism as a way of abrogating their contracts with the Fuggers or of obtaining the same end by supporting the rebellion.⁹

Instead of the free enterprise proposed by the Swabians, Gaismaier promised to install, a half-religious state socialism not unlike what Thomas Muenzer was attempting to create in Thuringia. Plans like this could only be realized by building on the ruins of the Fugger firms. Anyone who spoke out against the Fuggers was suspect in Ferdinand's eyes. He wasn't convinced that the Fuggers, in light of the inconsiderable small trade that they were involved in in the Tyrol, could be responsible for the rise in prices,¹⁰ Ferdinand was right. The real villain was the debasement of the currency, for which the crown itself bore primary responsibility. The Fugger firm was useful to the Habsburgs in other ways because it deflected all of the complaints that otherwise would have been aimed at Ferdinand. As a result, unless the Habsburgs wanted to expose themselves as the source of everyone's economic woes, they had to keep Jakob Fugger and his firm in their country.

In January 1525 the liturgical abuses which had appeared during the previous Christmas in Augsburg made their appearance at the church on the Fugger estates in Weissenhorn. Before long there were meetings in the local pub demanding a return to the old order. The most vocal advocates of revolutionary change were the serfs from the neighboring monastery at Roggenburg. Compared to them the complaints of the peasants who worked the Fuggers' lands were mild. The Fuggers were spared the worst excesses of the peasant revolt because they had treated their own peasants fairly.

Unlike the petty princes or impoverished knights who were short on capital, Fugger was not interested in rack renting the last penny from his tenants.¹¹ From the time he joined the firm as an adolescent until the day he died as the world's richest man, Jakob never wavered in his support of his people, be they the employees of his firm, or the residents of Augsburg who couldn't afford decent housing and ended up living at the Fuggerei or the serfs on his country estates. These men found in the great man on

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the Weinmarkt a constant friend and patron. Jakob was not petty in his dealings and was not interested in amassing riches from the pennies of his subordinates.

When it came to the working man, Fugger was more Catholic than Capitalist. Where Fugger operated, things were done differently. It is undeniable that various disadvantages accrued to the accounts of the lower classes as a result of his economic policies. There was in him, however, not a trace of the stinginess which forced concessions and increased the work load. On the contrary, serfs who worked on his estates and expressed the wish to move into the town so that they could live there as craftsmen, always received permission from the Fugger lords. He also knew how to deal with the emperor. The lords of other manors objected to his generosity. It was mostly at their behest that His Majesty was concerned about the practical (but not in principle) revocation of serfdom.¹²

This inclination to social progress did not mean that Fugger was ready to endorse a violent removal of the existing order, which he thought was sacred because of its ubiquity and its age. A sort of conservative-patriarchal reaction characterized his attitude toward the Reformation since Worms. When in 1524 Ferdinand needed money to put down the uprising of the peasants in Stuehlingen, Fugger honored his request immediately. Jakob's cool temperament was the key factor.¹³ Once the emperor insisted on the literal implementation of the Edict of Worms and made clear that any resistance was going to be punished severely with all of the force which imperial law could muster against crimes against the crown, Jakob closed ranks behind him. When it came to the ecclesial situation, Fugger was of one mind with Ferdinand who complained in 1524, "If God doesn't have mercy on us, I believe that we will soon be in a situation in large areas of Germany when people no longer know that God, the saints and the Blessed Mother exist in spite of the fact that I have done everything within my power to exterminate these sects."

The situation at Weissenhorn reached a critical point during the spring of 1525. Fearful that peasant groups were bent on plunder, the bankers shut down operations in Augsburg, the financial capital of the world. The banks tried to make excuses for their lack of liquidity by pointing to obligations on the Frankfurt money market. In reality they had spirited away everything they could, because no one knew when the city on the Lech was going to sink beneath the whirlpool of events.¹⁴

Jakob stayed in the background. Only the military precautions he took to secure Weissenhorn revealed his ultimate intentions. The peasant army in Liepheim felt threatened and demanded the removal of the mercenaries. Although the demands of the mob in Liepheim had been met, their leaders weren't satisfied. Weissenhorn itself had to join the uprising. The reb-

els failed to understand that there was no division between the economically challenged commune and its bourgeois Lord of the sort that could be compared to the tensions between many prelates and the people living on their lands. The worst excesses were committed by the inhabitants of the Roggenburger monastery. In comparison with them, the peasants living on Fugger lands, who had less reason to complain, were moderate. Corvée and serfdom were not a source of conflict under Jakob's rule, but he wouldn't tolerate the evangelical Gospel in his lands. Elsewhere the caretakers and overseers acted no where near as moderate and reserved as the men who ran Fugger's operation at Kirchberg and Weissenhorn.¹⁵

The peasant revolutionaries couldn't let this challenge go unanswered because an undependable Weissenhorn under Fugger's leadership posed a threat if the campaign started to go bad. In the moment of crisis, Augsburg stood by the Fuggers. In the final analysis, simple citizenry even if they couldn't compare themselves with Fugger, felt beholden to him nonetheless, because he was not a landowner who had earned the hatred of his tenants. No matter how much the peasants complained about Jakob and his firm, they would not join the revolutionary movement which had made him its main villain. They knew him better than that. They knew that he had treated them fairly, and as a result, they left Weissenhorn alone.

The loyalty of the city disappointed the Leipheimer mob. Since they couldn't risk an attack on the city, they decided to plunder the surrounding countryside instead. Smoke and flame arose over this peaceful land. Under the solvent of evangelical and fraternal charity, acts of injustice and violence were committed. The roads the peasants had tramped were now bloody and on fire, and the army left in its wake death and ashes, as it rolled victoriously past Oberkirchberg to restore the old order to the opposite bank of the Iller river.¹⁶

Once it became clear that the mob was more interested in plunder and insurrection than having just demands met, the Fuggers began to act with a decisiveness that the mob had not anticipated. Those who mistook their up-to-then peaceful efforts as weakness were rudely disappointed. The peasant revolutionaries soon became aware of the careful preparations which the merchant had made for times of war. Because it was better armed than most knights' castles and many princely cities, Weissenhorn provided such a warm welcome for its besiegers that the peasant leadership soon became convinced of the hopelessness of their endeavor. Their army withdrew, seeking in the looting of Roggenburg a cheap replacement for the booty they were unable to get out of Weissenhorn.

Chasubles, chalices and other precious items were either destroyed or carried off. The organ at the abbey was smashed to bits. And on the retreat back to Leipheim when the worst was over, other bands of looters repeated

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what had already taken place. Those who looked out from the Fugger villages or castles or the steeple of the church at Weissenhorn saw columns of smoke during the day and a pale glow in the sky at night whose cause they knew too well. Only one thing remained puzzling. Not one possession of the Fuggers was destroyed, no matter how violently the war raged around them although individual villages in the immediate vicinity joined the rebellion. The mob's evil activity demanded action on the part of the Swabian league. Leipheim and Guenzberg were retaken, rights were rescinded, the gangs broken up, their leaders, including the local pastor, executed, and a tax to pay for the buildings they had set on fire was imposed on the peasants as well as severe reparations payments to the landowners and the league.¹⁷

Fugger's hegemony remained largely spared, but there had been so much upheaval in the surrounding neighborhood that Kirchberg and Weissenhorn suffered visibly. Jakob supported the Swabian league and the Habsburgs, but he differed in his methods. What led to the gradual pacification of his lands was the relationship of trust between Jakob and his tenants, not the severe proclamation of state authority which the Swabian league was proposing.

Step by step peace returned. At first a few peasants took the loyalty oath, while the majority maintained their resistance. Then the number of those who wanted to reconcile with Fugger began to grow. Soon entire townships joined Jakob against the peasant army. Weissenhorn swore allegiance once again to Fugger, in a gesture which served as an exemplar with far reaching effects. When in the middle of May in 1525 the rumor spread that a new band of marauders was marching toward the town to overrun it once again, 750 men quickly came to the aid of Fuggers troops in defending the community. Many of these men were former members of the peasant forces. The humane way in which Fugger quelled the uprising, without recourse to sword and gallows, and attempted to bring back the advocates of revolution with goodness showed the superiority of this extraordinary man's methods.¹⁸

In the end it only took 200 knights to stamp out the last glimmers of revolution. By the summer of 1525 the hard-pressed prelate could return to his cloister. For the lands under Fugger's rule, the war ended only when the troops of George of Waldburg, who had dug in on the Guenz, were withdrawn. After they left the region of Kirchberg and Weissenhorn, the modest remains of the peasant army had been deprived of any chance of success, the mob dispersed, and its leaders delivered to the scaffold for execution.

Fugger did not underestimate the danger which the peasant rebellion posed, but he had no desire to act like the Swabian, Franconian and other southern German lords, who seemed more intent on bringing not just

peace but the silence of the grave to their ravaged lands. Jakob was not interested in bringing about either reaction or the ruin of the peasant class.¹⁹ He didn't demand reparations payments. Jakob was not a disinterested academic observer of the events which threatened ruin during the last year of his life. Jakob wanted to find those who were personally responsible, and he thought it ultimately was Martin Luther, the monk who brought the Middle Ages to an end. Luther was a conservative in economic matters, but his opposition to Fugger's brand of capitalism did more to spread poverty than any capitalism would wreak. By depriving Christendom of its unity and therefore its police power, Luther paved the way for a new era which was dehumanized by design not by default when it came to the application of universally accepted principles. Writing at the end of another great age of German culture, Heinrich Pesch tried to give some sense of the damage which Luther and Hutten wrought, when he wrote that "during the period of the Christian Middle Ages, there was no problem of pauperism and real poverty. Starvation and pestilence were only exceptions, and where they occurred they afflicted all. Only after the faith was extinguished did charity die out. . . . In its place there emerged the horror of the modern era, the exploitation of poverty in the form of a political party which, with the fatalism of Islam, awaited its future triumph."²⁰

The communists' invocation of labor was the return of the repressed, a cry uttered centuries after the unified world view which Fugger had attempted to defend had perished. Fugger failed because he failed to see that valuation of labor which the Benedictine motto "*ora et labora*" accomplished also insistence on a condemnation of the usury which he practiced. Usury which involved the unnatural copulation of money, was, like the copulation involved in sodomy, intrinsically sterile. Fugger, because of his flawed business practices, was unable to extract the central principle from the system he defended *en gros pauschal*. Pesch, having the benefit of economic science wrote:

The feudal system. . . is the realization. . . of a principle which was and will remain for all times the basis of any healthy economic and social order; the principle that order, social prosperity, and adequate material provision for all can only come from curbing human and individual willfulness, and from subordinating it to the interests of the whole.²¹

The progress which Christendom had made in dealing with the complexity of economic exchange was interrupted by the Italian Renaissance, which favored a return to the obsolete economic models of the Roman Empire, and the German Reformation, which interrupted the discussion of usury which could have been resolved by understanding the theoretical implications of a practical solution like the *monti di pietà* which Savonarola and Strozzi helped found in Florence. More importantly, those events

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destroyed the police power which could have enforced a solution to the usury problem. In other words, the slow "movement toward freedom for the serfs" which characterized economic development until the end of the Middle Ages would have continued to an eventual solution of the usury problem and the proper valuation of human labor, "If such favorable development had not been undermined by the indiscriminate . . . adaptation of foreign law, and if the humanism and the Reformation which courted ancient paganism had not undermined and crippled the influence of the Church."²² If there had been no Renaissance and no Reformation, "that movement would have brought about in a peaceful manner the complete abolition of hardships associated with the land, and it would have led to a completely free peasantry."²³

The Renaissance in Italy followed by the Reformation in Germany brought about a repudiation of the Christian economic system based on the reward for work and replaced it with ancient capitalist models derived from antiquity. According to Baron v. Vogelsang: "Christendom has again arrived at the stage of ancient paganism, where all work was the thing of slaves and unworthy of a free man. . . . Only the exploitation of the work of others, usury, was without honor, and it stood, along with the race which lived off it, outside the social ladder. . . . Now contempt has come to bear on this genuinely Christian social viewpoint; everything for money, money for everything; money without regard to its origin, without regard to its purpose, would be able to buy honor, recognition, esteem, and it should buy a place on the social ladder. He who has money to offer is the master; he who has work to offer, is a despised servant, whether he serves at the altar or in the factory."²⁴

The Reformation destroyed the guilds, the great achievement of the Germanic-Christian economic system. The golden age of the guilds "ended with the occurrence of the Reformation in Germany. From then on the foundation on which alone it could develop itself fully was lacking; the unity and vitality of religious conviction, that deep moral earnestness, that essential sense of community, that noble justice and active charity which had characterized medieval Germany."²⁵ The guild came into being as a manifestation of Christian love and liberty. When that love and liberty began to atrophy, the guilds went into a period of decline and the valuation of labor was replaced by the *auri sacri fames* and the usury which seemed to make gold copulate on its own. Pesch cites Schanz, who said, "One of the most important consequences of the religious division for the journeyman system had to be the dissolution of the fraternities that were erected on ecclesiastical bases The Reformation again isolated the individual journeyman insofar as there was no secular journeyman association, and the masters . . . could now again exploit the journeymen in their own self-

ish interests."²⁶

Once the Church had been divided in Germany, there was no effective curb on self-interest. Self-interest ceased being a vice and was on its way to becoming the mainspring of the economic system. This allowed ever larger aggregations of economic power, which violated "the measure of small-scale operation" which was "the basic principle of the medieval guild system."²⁷

The reformation had a number of economic consequences, all of them bad, all of them revolving around an exaggerated notion of competition which 1) denigrated the value of the general well being of the whole nation in favor of 2) elements who are without conscience, who used competition as 3) "merely a cover for disgusting self interest in a brutal war of all against all," which became a life and death struggle, culminating in "a harsh conflict of interests and hostile tension between the citizens of the same country," which promoted 4) the victory of large-scale operations over small ones, especially in industry.²⁸ The net result was the prince losing sight of the fact that "it is the purpose and the obligation of each country to intervene on behalf of the public welfare of its own people."²⁹

This denigration of national unity and national welfare followed inexorably from the religious divisions which flowed from the Reformation. It reached its culmination in Calvinism, which divided the population of the nation into the mutually exclusive categories of elect and reprobate, and as a further natural consequence decreed that economic exchange should benefit only one privileged class. In a world like this, tariffs, which the ruler "is obligated to provide effective protection to its national work force,"³⁰ become incomprehensible, and they were abolished in favor of policies which favored the economic version of the elect which succeeded the theological version. Unlike England, which succumbed to Calvinism of both the theological and economic varieties during the 17th century, Germany retained a sense of the centrality of labor which it had inherited from the Holy Roman Empire. Germans, as a result, even as late as the 19th century, could defend tariffs, as Karl Baron v. Vogelsang did when he wrote:

we do so because the state must fulfill its function of protecting the national welfare, and because it may not surrender itself unconditionally with all of the material and imponderable treasures at its disposal and with all of its inherited national capital to the anarchism of the world economy . . . the anarchism and capitalism inevitably invokes the anarchism of socialism. . . . The purpose of the state is to protect and promote the well being of its member; the 'laws' of the world economy . . . require the unconditional sacrifice of this well-being for the benefit of big capital.³¹

If the prince ceases to defend labor and the interests of those who are the source of all value then "The interests of the states . . . will be sacrificed

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to international competition . . . to the demands of the trusts of big capital, the cosmopolitan vampires which control the world economy.”³² It is one of the ironies of history that opponents of capitalism like Ulrich von Hutten, who can be seen as the founder of the German Left, brought about a world more congenial to the “cosmopolitan vampires” of capitalist finance than the one he inherited and fought against.

Endnotes

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3 Von Poelnitz, *Jakob Fugger*, p. 590.

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14 Von Poelnitz, *Jakob Fugger*, p. 582.

15 Von Poelnitz, *Jakob Fugger*, p. 583

16 Von Poelnitz, *Jakob Fugger*, p. 585.

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19 Von Poelnitz, *Jakob Fugger*, p. 599.

20 Heinrich Pesch, *Liberalism, Socialism and Christian Social Order Book II* (Lewiston, ME: The Edwin Mellen Press, 2000), p. 200.

21 Pesch, *Liberalism*, p. 178.

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23 Ibid.

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25 Pesch, *Liberalism*, p. 218.

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27 Pesch, *Liberalism*, p. 225.

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Chapter Thirty

The Crisis in Hungary

During the last year of his life, Jakob was forced to fight a war on two fronts. The same peasant revolt which swept through mining districts of the Tyrol and threatened his estates in Weissenhorn broke out as a workers' rebellion among the miners at the Fugger/Thurzo mines in Neusohl in what is now Slovakia. The situation in Hungary was complicated by the fact that Jakob's relations with the reigning monarch had gone sour over the ten years leading up to the crisis of the summer of 1525.

After the death of King Vladislaus in 1516 the aristocratic opposition to the Fugger/Thurzo combine began to grow at the Hungarian court, which was against a Habsburg succession and which had become suspicious of the close connection between Fugger and the Habsburgs, as well as the growing indebtedness of the Hungarian crown to the Fuggers. With the transfer of the Slovakian mountain towns, via the new Hungarian king Ludwig II to his wife in 1522, and the naming of her confidante Bernhard Behaim to chamber count in 1524, a shift in power which was unfavorable to Fugger interests took place. Behaim supported the complaints of the mountain cities against the firm. In the year that Jakob Fugger died, the discontent which had been building broke out in open rebellion.

Beyond that, the economic and political situation in Hungary was becoming more difficult by the day. The crown followed through on its decision to debase the currency, but no one was willing to take responsibility for the move. The initial enthusiasm in the parliament by which they hoped to ban all financial problems by this tried and true magic formula soon blew up in their faces. When foreigners refused to accept their debased coins, all hell broke loose, during which the guilty parties tried to divert the rage of the people by blaming everything on foreign companies. Tired of the unending conflict, George Thurzo tried to bail out. It was then that Jakob delivered the famous line, "He wanted to earn as much as he could while he was still able."¹

Since Jakob had no children of his own, he was forced to look for a successor among his brother's children. His heir apparent was his nephew Anton, who became *de facto* and then *de jure* head of the firm during the Hungarian crisis. Anton Fugger was confronted with several difficulties which became particularly acute during the last months of his uncle's life. The most serious was the crisis in the Hungarian firm which over the early summer of 1525 resulted in a worker revolt in the Slovakian mountain towns

and the nationalization of the Fugger mines by the Hungarian crown.²

The spark which set it off was the peasant revolt. The worker unrest which broke out in Neusohl of January 1525 was a part of the ferment that was sweeping Europe.³ As in the Tyrol, the Fuggers were blamed for decisions which they did not make and consequences stemming from those decisions over which they had no control.

The most difficult question was the debasement of the currency, from which the crown as well as the merchants as well as the Church and the aristocracy had enriched themselves. As soon as the disadvantages of the reckless debasement of the coinage became apparent in foreign trade and political standing, one group tried to lay the responsibility for this move at the feet of the other. Everyone was avid to buy up the undebased Hungarian coins and to put the blame on others, because "The gold is fleeing and the bad coins remain in the land."⁴

As soon as Bernhard Behaim entered the king's service, the ratios changed. He had coin masters from Germany come to Ofen, where they made coins of uneven value.⁵ The employees of Fugger and Thurzo were unjustly accused. They disputed the claim that their bosses had taken part in the debasement of the currency. Because of the debasement of the coinage, which had gone so far as to reduce the value of the coin to one half of its nominal value, the firm needed to double wages or pay with the old coins, to compensate for the loss of buying power.

Both of these phenomena had their common cause in the debasement of the coinage which kicked in 1521 and brought about a rise in prices. Whereas the miners were full of anxiety about their survival and demanded as a result higher pay, the aristocratic Hungarian opposition tried to divert attention from their complicity in the currency crisis by laying the blame for the rise in prices at the feet of the Thurzo/Fugger firm.

After the outbreak of violence at the beginning of 1525 in the mining towns, armed insurrectionist miners took the Fugger representative Hans Ploss hostage in June and forced him to double their wages and pay them in the new coin. In the same month the head of the Fugger operation in Ofen was taken hostage and the firm's plant seized. The Fuggers responded to the workers' rebellion by granting them a one hundred percent pay raise, and the miners responded by celebrating.⁶

When the miners who were assembled in front of the city hall fired off the five hundred guns they had with them unleashing a thundering din along with the beating of drums and the waving of flags, the city officials got a glimpse of the danger which had just passed. An alliance of the *woiwoden* and the rebels could have destroyed the Fugger-Thurzo name in Neusohl. But instead the miners and the woodcutters were satisfied with their success. In a march that was half protest half parade, the miners

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marched through the town to the beat of their drums. Banners were waved. When they got to the company's offices, which also served as a commissary, and a source of complaint, the confrontation came down to a test of whether the mood had changed or whether the anger was going to break out again. Hans Ploss, the firm's representative, had defused a tense situation by giving in to labor's justified demands. The outbreak of popular revolution had been avoided.⁷

King Ludwig, an early exponent of crisis capitalism, used the worker insurrection as a pretext to nationalize the Fugger mining operation and divert the attention of the workers from the people responsible for debasing the coinage. After nationalizing the mines, King Ludwig put his counselor Bernard Behaim, the man responsible for debasing the currency and a dedicated foe of the Fuggers, in charge of the mining and smelting operations. But since Behaim had no money and wasn't in a position to pay the miners, new revolts broke out in the Neusohler mines. The departure of Fugger's mining engineers and the ongoing strikes—which were now no longer aimed at the dispossessed Fuggers but rather at the new owners and the local elites in the Waldbuergers—brought about a dramatic fall in production.

In February 1526 the revolutionary workers held Behaim captive for nine days. Only the deployment of troops to the region and a legal investigation were able to restore calm. But when the outstanding wages remained unpaid, another uprising under the direction of a radical minority of the miners took place in August 1526, during which the Neusohl parish and a number of houses of the town citizens were looted and set on fire.

In the midst of all this, first Jakob, and then after his death, his nephew Anton Fugger introduced energetic countermeasures in order to get back the Hungarian firm. Through his close contacts with the House of Habsburg, the Duke of Saxony, and the Roman Curia, Jakob mobilized political support; copper shipments were blocked and the leadership of the Hungarian aristocratic opposition, people like Johann Zapolya were bought off with gifts.

Eventually, the Hungarian crown, which was in desperate need of money because of the advance of the Turks, renewed the Fuggers' lease on the Slovakian mines for another 15 years. The Fuggers promised to pay 20,000 Gulden annually in royalties and to deliver 7,500 Mark silver at a fixed price to the royal treasury. In addition the Crown accepted the liability for the losses which the Fuggers suffered as a result of the nationalization of the mines, a sum which came to 206,741 Gulden and assured the firm that it would be compensated for its losses.⁸

Jakob, however, was going to be satisfied with nothing less than the restitution of what he considered the full extent of his losses. To this end, the

firm prepared a statement which explained the extent of the losses which they had suffered in Hungary. It came to a total of 535,296 new Guldens.⁹ For the now-aged man the Hungarian events were a heavy burden. Their effects began to show on Jakob during the fall of 1525. In October he was running a fever, and when it worsened the untiring merchant had to take to bed. After the firm filed its complaint with Charles V, the emperor let the king of Hungary know that if no solution were found, the empire might take action to restore the Fuggers.¹⁰

When it took the unconsidered step of nationalizing the Fugger mines, the Hungarian court probably had no clear sense of the enemy it was making. Now they were beginning to learn. Moved to action by the Elector prince Louis of the Palatinate and his brother the Palatinate count Friedrich, Pope Clement VIII, who otherwise had little in common with Fugger, raised the issue with the king, reminding him that without the support of the Curia and the Swabian big bank, the kingdom was totally incapable of protecting itself from the Turkish invasion.

In spite of the deterioration of his health, Jakob redoubled his efforts. When it came to important issues, like the battle over Hungary, the old man didn't delegate.¹¹ The future of his company and his honor depended on it. After Fugger lined up the emperor, the pope, Archduke Ferdinand, the king of Poland, the Swabian league and a number of German princes in his defense of both his fortune and his good name as merchant, and after they threatened to impose a trade embargo on Hungary, it began to dawn on the hapless Jagellonian monarch just how much mischief his gesture had provoked. The firm was not content to make do with half measures or partial restitution. Jakob Fugger, now visibly ill, insisted on the letter of the law. He demanded reparations and the full restoration of his honor.

In his letter of December 18, 1525, Jakob referred to previous letters in which he recounted how many thousands were earning a living by working for his firms, who were making a significant contribution for the common good. Not one line of his letter betrayed any diminution of clarity or energy.¹² These were the last lines he wrote, and they were meant for Duke George of Saxony. They remained focused, like Fugger himself, on the preservation of his rights and the interests of his house with proud rigidity to the end.¹³

On December 19, 1525, Jakob was fully conscious, but his weakness was increasing, as Ferdinand entered the imperial city in solemn procession. When he and the Cardinal of Salzburg neared Fugger's house on the Weinmarkt on horseback, he bade the trumpeters remain silent because he understood that Fugger was on his deathbed and he didn't want to cause him unnecessary difficulties, and so he and his retinue passed by in silence. The Habsburg majesty bowed silently before the greatness of the dying man.

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Jakob was just as particular in arranging his own funeral. It pained him to learn that Urbanus Rhegius was distributing communion under both species. The news prompted him to write that "Herr Jakob Fugger is . . . a good, true and upright Christian and against Lutheranism. It is therefore repugnant to him that at his funeral at St. Anna's he be buried with the Lutherans."¹⁴ Now more than ever he committed himself to the details of the pious exercises of the ancient church. The funeral was to be performed according to the old Catholic rite. He would rather abandon his entire sepulchre, on which he had showered so much pride, effort and money, than to be laid to rest in a chapel, which served a faith, i.e., Lutheranism, which was responsible for the wreck of everything old and the spiritual disaster of his age. Jakob also made final arrangements that went beyond liturgical issues. As was customary when a Fugger died, large contributions were made to the poor, and in this instance Jakob specified that "In all of my domains . . . donations are to be dispensed."

Over Christmas of 1525 the entire world waited on his death. They understood how important Fugger's life was for the battle for the Church, the battle against the Turks, and for the hegemony of the emperor in the West, and for the spread of German commerce and the contest over the creation of a new social order.¹⁵ Then on December 28, 1525 Jakob Fugger finally left the dealings of this world behind. Jakob Fugger died without issue in his splendid house at Weinmarkt. Anton, his nephew, took over the leadership of the business. Under his direction the Fugger trading company reached the culmination of its strength and of its mercantile, industrial, and financial accomplishments.¹⁶ The age of universal unity encompassing Emperor, Church, and capital was over.

This was nowhere more apparent than in Augsburg, which had benefited more than any place on earth from his philanthropy and generosity. The city in which Fugger served the church so assiduously became the birthplace of the Swabian reformation, which no longer had any need of indulgences. The monks at St. Anna all got married and distributed communion under both species. The house of his sculptor Adolf Daucher became a coven of Anabaptists. The preachers of St. Moritz whom Jakob envisioned as the avant garde of educated and orthodox church reform were either driven out because of moral turpitude or persecuted because they supported the church. Everything from the courts of the emperor and the pope down to the hovels of the little people was changed.¹⁷ It is not known whether all of the Masses which his will provided for ever got said, or whether all the alms he specified were to be given to the poor in city and country ever got distributed.¹⁸ The beautiful widow remarried a few weeks after the death of her husband.¹⁹

Neither Sybil nor Jakob's nephew lingered at the deathbed of this ex-

traordinary man. In spite of all his power and riches, Jakob was a lonely figure in spite of his standing among the men of his time and place. When the church bells called the faithful to prayer and work on the morning of December 30, 1525, they rang in Anton Fugger's commercial empire as well.²⁰

The first order of business for the new head of the Fugger firm was resolving the Hungarian crisis. With that end in mind, Anton traveled to Vienna, arriving no later than February 10, 1526,²¹ and continued the negotiations which his uncle had begun. Jakob's warning that the king would come to a bad end if he didn't come to his senses was no empty threat. It sounded more like a premonition of the impending catastrophe, which would drown the king, his house and his country under the Turkish Tsunami.²²

Nothing expressed better the new relationship between sovereign and financier better than the battle between King Ludwig and the Fuggers. The king had the power, but the banker had the money which enabled the king to field an army, which was the only way he could enforce his power. So in reality the bankers had the power, and any monarch who thought he could cross the banks was on shaky ground. These were dangerous times for a monarch who wasn't nearly as powerful as he thought he was. King Ludwig was in urgent need of Augsburger capital to equip the army he needed to fight the Turks.²³ The issue needed to be resolved soon. Ludwig knew that his fate and that of his country depended upon coming to a speedy resolution of the disagreement with German capital, which was going to finance the campaign against the Sultan.

The financial embargo against Hungary was only lifted after Ludwig and Maria lifted the various penal sanctions against the Fuggers in a festive audience which was held in Gran on April 14, 1526 and after a new arrangement was made between Fugger and Thurzo and after new contracts had been concluded with the firm. Only after another 15 year lease on the mines as well as all the irregularities in copper trade and the coinage got ironed out, did the king get the 50,000 ducats that he desired.²⁴

Unfortunately, crucial months necessary for arming the Hungarian state had been lost because of this bickering back and forth.²⁵ On the day before the agreement was signed, the news reached Ofen that the Sultan Sulieman had left Constantinople with a mighty army and was now headed toward Hungary. His avant garde had already reached the Danube. What had transpired on Hungarian soil over the last 9 months was now bearing the bitter fruit of a corrupt national policy based on economic jealousy and personal intrigue. The royal couple were without doubt to blame for this. Their youthful frivolity blinded them to the unreality of the tactics they had chosen against the upper German capitalists. Left to their own resources the government was unable to raise the advance of 100,000 Gul-

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den from either Fugger or Parmenter which was indispensable for waging war.²⁶ The young King Ludwig II as well as his wife were deeply in debt to the Fugger firm. They probably saw the closing of the mines and their nationalization as a clever move. By the time the king recognized how his prestige suffered as a result of his hasty violation of the law, as well as taking the firm's personnel hostage as well as the extortion that flowed from these spurious contracts, it was too late.²⁷ The debasement of the Hungarian coinage and the royal couple's attempt to blame the rise in prices which inevitably followed on the Fuggers led inexorably to the debacle at Mohacs. Because of his failure to come to terms with the Fuggers, King Ludwig could only muster a modest 20,000 man force against an army which was not only 20 times that size, but better equipped.

The defeat of the hapless King Ludwig II at Mohacs on August 28, 1526 threw the Habsburgs' plans to recapture Germany for the Catholic faith into disarray. Mohacs, according to Belloc, "made the Hapsburgs realize. . . that Solymán had better material and a better military machine in recruitment, morale and methods than anything they could oppose to him. The Turk of that day was the superior of Europe. . . he had larger, better and more numerous artillery."²⁸

At this point there was nothing between the Turks and Vienna. Christendom, now divided, had never been weaker. The French used Spanish emigrants to send out feelers to the sultan, who because of his partial conquest of Bosnia was now able to project force into central Europe. With both the King of France and the Lutherans praying for a Muslim victory over Rome and the Holy Roman Emperor, it was unlikely that plans for a crusade were going to succeed.

The economic moral of this story was clear for anyone with eyes to see. The imprudent and impetuous Jagellonian King Ludwig II had antagonized the Fuggers and as a result his kingdom had gone down with his credit. From this moment on, the power of the former was going to be a function of access to the latter. The only thing that could have saved the day was a big loan from the Fuggers, but they were not inclined to lend to monarchs who stole their property.

As a result of Mohacs, the Fuggers' relationship with the Habsburgs became the model for successful rule in Europe. On November 3, 1527, one day after closing the deal with the Fuggers, the Habsburger Ferdinand was crowned king of Hungary in Stuhlweissenburg.²⁹ Ferdinand could attribute his success to the support he received from the upper German financiers.

The Habsburgs' successful collaboration with the Fuggers had a shadow side, one which lay at the heart of their financial arrangement. As of 1527, the Habsburgs were 854,700 Gulden in debt to the Fuggers.³⁰ The inexorable nature of compound interest combined with the huge amount that

the Habsburgs had borrowed made default inevitable. The only question was which was going to come first: defeat by a technologically and numerically superior Turkish army or bankruptcy because of the money borrowed to defeat that army. By the end of 1530, Ferdinand, was one million Gulden in debt with obligations to transfer another 249,000 Gulden to Naples, and no longer capable of making regular interest payments. As a result, he transferred the direction of his finances to Christoph Muelich, the Fugger branch manager in Naples. At this point the Fuggers began to fulfill his financial obligations.³¹

Although the Fuggers were able to work out a successful *modus operandi* with the Habsburgs and were able to have Ludwig II's theft of their property annulled, princes still felt that they could renege on their debts to bankers with impunity. This is precisely what happened to the Hochstetters, another Augsburg bank. The charity which the Fuggers practiced with their workers and employees did not extend to fellow bankers. In the spring of 1528, the Fuggers spread rumors in Antwerp and Lyon about the solvency of the Hochstetter. They also took over the debts of their beleaguered rival and paid off a number of creditors, something which only intensified the anxiety of the creditors who hadn't yet been paid. When the run on the Hochstetter bank began in 1529, a desperate call for help from Ambrosius Hochstetter to his "dear mr. Cousin" Anton Fugger went unanswered. The once mighty Lord of finance, along with his son of the same name and his cousin Joseph were arrested in Augsburg, while Anton Fugger made off with the House of Hochstetter in Schwaz, and the smelting operation in Jenbach as well as other choice *filet cuts* which he picked up in bankruptcy proceedings.³²

The Fuggers certainly had the wherewithal to help out. By 1529, they had become the most powerful banking family in Europe, but they chose instead to drive Ambrosius Hochstetter to the wall. The Fuggers had become a European institution and a universal power. And they had to act the part too. By 1529 they had over two million Guldens capital at their disposal, while by comparison, the fortunes of the last great Florentine families, say a Tommaso Guadagn, Robert Delgli Albizzi, or a Piero Salvati, were only about 25 percent of that sum or less.³³ Fugger had become indispensable to the house of Habsburg. When the emperor hoped to find financial support among the Grimaldi of Genoa or from the now banished Medici, the Augsburger were there to pull the emperor's chestnuts out of the fire in southeastern Europe.

On March 2, 1529, old Ambrosius had to use his wife, who was related to Anton's wife Anna Rehlingen, to offer up his castle and his possessions as security.³⁴ The run on the Hochstetter bank had begun. Each of Ambrosius 300 or so creditors wanted payment immediately. A group of them

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were insisting that Ambrosius should be imprisoned in the tower until he paid off his last penny of debt. His credit was gone. Fugger moved in for the kill. It was important to keep religion and politics, if necessary, apart. Anton was inclined to use his fortune for the defense of the West out of loyalty to the empire and Christian thought. But the merchant in him was unwilling to suffer losses.³⁵ What happened to the old Ambrosius could happen to anyone who got in too deeply when it came to lending to princes.³⁶ Ambrosius and his family found themselves in dire need. The younger Ambrosius begged his "dear cousin" to help them out of this mess so that we can survive it with honor.³⁷ Driven to desperation, Ambrosius attempted to deceive his creditors and thereby lost what was left of Anton's inclination to help him.³⁸ Every compromise solution which Ambrosius offered was rebuffed with doubt and mistrust by the Fuggers. His word had no credit any more in the most literal sense of the term.³⁹

On September 23, 1529, as the Turkish army was approaching Vienna, Charles V sent Count Leonhard Nogarola to his brother with detailed instructions of how the emperor should defend the Christian West.⁴⁰ As at the Battle of Mohacs in Hungary, the fate of Vienna depended on the financial assistance of the big upper German financiers.⁴¹ After the bad experiences they had had with King Ludwig II, who died at the catastrophe of Mohacs, the Fuggers comprehended that Ferdinand was incapable of defending their local economic interests. The family steered its own politico-economic course as well as its own ideological course. Faith and tradition as well as culture and language bound Anton to the West, whose highest authority met with him in Bologna in November 1529.⁴² When the sultan refused to pursue his military advantage and the Turks inexplicably withdrew from Vienna, Europe's willingness to sacrifice declined as well, and Anton ruled out significant contributions.

At this point Charles V traveled to the eastern lands of his empire to work out a plan to save it from the forces, both internal and external, threatening its dissolution. Charles and Ferdinand hadn't met in eight years. Neither Jakob the Rich nor his nephew Anton had ever stood in the presence of Charles. The meeting of both Habsburgs in May of 1530 took place on the Brenner Pass, and during the visit to Innsbruck, which was ostensibly organized to coordinate their plans with the upper German banking world, would exert a lasting influence over German and European development.⁴³

On May 10, 1530 the miners and smelters from Schwaz prepared to receive His Majesty with noble silver gifts.⁴⁴ In the early morning hours of June 15, 1530, the German prince electors assembled in the Augsburg city hall to welcome Karl, who had spent the night in Fuerstenfeldbruck.⁴⁵

Conspicuously on their own, the brothers and cousins Anton, Raymond and Hieronymous Fugger, along with 132 serving men on horseback

"all arrayed in one color" rode forth. When all of the elegant lords, princes and prelates as well as foreign ambassadors and emissaries were mustered, the merchant lords took secret pleasure in knowing that not a few of the lords in attendance were in their book of debtors. The city councilmen groaned under the heat more than under other worries. The people rejoiced over the sound of the bells and firearms. The monosyllabic Habsburgs, who preferred to let others do the talking for them, smilingly accepted 3000 Gulden and Ducats, which the council offered in gilded chalices.⁴⁶

Negotiations followed the celebrations. With a self-confidence that now seems extraordinary, the firm claimed that Ferdinand had squandered their money. They demanded restitution from the previous *woiwoden*. Only under this condition would they consider entertaining their request for more money. Because of their oppressive debt burden, the Habsburgs found the Fuggers indispensable. If that was the case then the Austrian bureaucrats should not be permitted to burden the Fuggers with unnecessary difficulties.

By the end of June 1530 an agreement was concluded which safeguarded Fugger rights and guaranteed that Fugger money would flow into Habsburg coffers. On September 9, 1530, Ferdinand received a loan of 50,000 Sonnenkronen to finance the war against the Turks.⁴⁷ Once the old debts were factored into the equation, the total amount which the Austrian Habsburgs owed the Fuggers amounted to more than a million Gulden.⁴⁸ In April 1532 in Regensburg, Ferdinand summoned the empire to defend itself against the Turks. As soon as the Turkish avant garde passed through Steiermark and Carinthia on their way to Wiener Neustadt, the population of Bozen fled, while Innsbruck and Tyrol began to prepare an aggressive defense.⁴⁹ The Swabian willingness to help by supplying money, weapons, and troops, combined with the help of other upper German communities, brought noticeable relief to Vienna. Luther as well placed himself at the forefront of the West's plans to defend itself, leading to a rise in hope among both king and emperor that they might eventually prevail over the Sultan. Ferdinand received 10,000 Gulden from the Vienna branch for defense of the Siebenbruggen fortress Hermannstadt against the Turks.⁵⁰ The sum was absolutely necessary for Karl and Ferdinand because the Turks with almost 400,000 men were approaching Austria. Rumor had it that the Sultan himself was in Ofen. The siege of Vienna was going to begin any day.

In order to present a united front against the Turks, the Habsburgs had to soften their opposition to the Reformation. On June 23, 1532, a provisional solution to the religion question was announced in Nuernberg. It allowed the Protestants the free practice of their religion until the next council. The citizens of Augsburg were hardly enthusiastic. Many Protestants preferred an alliance with the Turks.⁵¹

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In August 1532 the tide finally turned. After the modest Hungarian fortress of Guens turned back an overwhelmingly superior Turkish force, willingness to put up money grew among the German bankers as they realized that their sacrifice wasn't being wasted. As a result, the forces led by the Habsburgs took the initiative. The Turks gave up their attack and that fall, Charles V was able to make his triumphal entry into Vienna, thanks in large part to the financing which the Fuggers and the Welsers had provided.

The Fall of 1532 saw the emperor at the peak of his career. At the same time that Charles V was on the march from Regensburg to Vienna, the Sultan abandoned his attack on Austria, Gritti broke through the siege of Gran, and the imperial admiral Andrea Doria succeeded in defeating the Turkish fleet, which allowed the simultaneous reconquest of much of southern Greece. The sacrifice which the Emperor had made for his religious opponents in the treaty of Nuremberg and the concessions he had made bore fruit in the liberation of Hungary and Siebenbuergen.⁵²

The Fuggers had triumphed, everywhere but in Augsburg. The peasant revolt had been crushed militarily in 1525, but the religious roots of the movement remained untouched in Switzerland, where the "farmer and serf" rebellion was reborn among the miners as Anabaptism. Sections of Switzerland which had long belonged to the Church were now being pressured to join the reformed camp by the other cantons with a combination of persuasion, promises, and in the last analysis with armed violence. The Fuggers could not watch the revolution that was sweeping Switzerland and stand by without doing something. The mountainous regions hadn't returned to normal ever since the Anabaptist movement had found secret devotees among the miners.⁵³ When Ulrich Zwingli died on the battlefield of Kappel on October 11, 1531, neither the military nor the ideological battle had been concluded.⁵⁴

The Anabaptist movement had not died out in Lech either. Nonetheless it did not have the meaning it once had. The sides had changed. Even devout Lutherans were persecuted. The Swiss and Strassburg strains of the Reformation took on a different cast under the influence of Caspar Schwenckfeld and Sebastian Franck. The Anabaptists had taken root in Augsburg as well. The defection of the patrician Eitel Hans Langenmantel to the Anabaptist camp showed that this sect posed a new threat. The religious and social revolutionary ideas of the Anabaptists had gradually penetrated the upper bourgeoisie, which the Fuggers considered their class.⁵⁶ Yet, because of their excesses, the Anabaptists proved to be their own worst enemy. The Lutherans and the Catholics were united in their treatment of the Anabaptists, whose members were treated as sectarians and enemies of the state. The Fuggers fought bitterly against this movement, which they had known

from their experiences in the Tyrol as the bearers of religious-anarchistic tendencies. Anton worked with the preacher Otmar Nachtigall, who, after overcoming his own anabaptist inclinations, returned to the old Church and defended thereafter the Mass so vehemently, that he swore "the death of Judas" to their enemies from the pulpit of St. Moritz.⁵⁷

If Nachtigall stirred up the masses, the community might have to pay the price, and Anton's family might be damaged as well. Fugger was advised to "get rid of the doctor." The preacher Nachtigall was denied access to the Imperial Street, which ran from the Cathedral to the city hall. Even if Anton showed remarkable tactical agility, his religious convictions remained unmovable. Fugger defended them with a decisiveness that even his deceased uncle would have found remarkable.⁵⁸

On May 12, 1528 Eitel Hans Langenmantel was executed by sword according to the decree of the law in Weissenhorn. He narrowly escaped being burned at the stake. As a result his followers, especially Marx Ohems became irreconcilable enemies of the Fuggers.⁵⁹ Anton, who bore no objective responsibility for the heresy proceedings, became the main person responsible for them in the public eye.⁶⁰ Langenmantel's death had long term political and emotional consequences for the life of Anton. His martyrdom give birth to the Zwinglians in Augsburg.

In 1533 the Zwinglians took over St. Moritz in Augsburg. With the preaching house of St. Moritz now in radical hands, the adherence to the old church fell off dramatically. In February 1533, the Zechmeister of St. Moritz, an adherent of Zwingli, under the direction of Marx Oehem, closed the sacristy. The keys were carried off. The early morning Mass, which according to ancient custom was paid for by the Fuggers, was abolished, and decorations and candelabras removed. Processional banners as well as monstrosities and the altar setting were seized. The old pictures, necessary for the Ascension celebration, were removed. Serious conflict loomed in the central Catholic parish church in Augsburg.⁶¹

When on May 22, 1533, the day following the feast of the Ascension, Anton and Raymond Fugger entered the St. Moritz church with their friends and followers, they found the church packed. Since the opening in the ceiling which was necessary for the symbolic Ascension ceremony was closed, Anton had his men break into the steeple, remove the changes in the ceiling and then have the figure of Christ drawn up into its customary position. Before the ceremony came to an end, the Church patron heard, "There's Oehem." And as Raymond Fugger later explained to his cousin Georg Hoermann, Oehem "came through the church as if it were full of demons," crying "Get rid of that abomination," by which he meant the figure of the ascending Christ. "Since no one did what he said, he ran out of the Church to Mayor Rehlinger."⁶²

After Oehem left, the celebration of the feast of the Ascension came to its usual end. But the story didn't end there. Oehem latter returned with his iconoclastic Anabaptist followers and began wrecking the church. The image of the savior on a rainbow was lowered to within six feet of the floor. Then at Oehem's orders the workmen let go of their ropes. The figure crashed to the ground and shattered.⁶³

Incredible as it sounds, the Augsburg city council prosecuted Anton Fugger, not Marx Oehem, for breach of peace and found him guilty as charged. The guilty party was to report to the tower on the evening of May 30, 1533. On the following morning the Council would review his case and advise him of the outcome.⁶⁴ Anton's incarceration, no matter how symbolic, was a painful experience for the Fuggers, because it was obvious that the council had caved into pressure from the street. Raymond wrote to his cousin Georg Hoermann: "I anticipate an increase in their vindictiveness after they put him in the tower. They will think that they have been avenged. And so my dear brother in law, you see how they treat us."

The suppression of the Catholic Mass at St. Moritz would have far-reaching consequences. The suspicion that Anton was guilty of insurrection continued to hold sway. The impugning of the head of the firm's honor which Oehem accomplished by having him put in jail was not forgotten. The European public took notice of what had happened in Augsburg as a prelude to similar developments in Muenster in Westphalia. Seen in the context of Henry VIII of England's break with Rome, they were of such gravity that Erasmus of Rotterdam had serious discussion about them with the Roman nuntio Vergerio.⁶⁵ The banning of the processions during the summer of 1533 showed clearly that the conflict at St. Moritz was a prelude. Augsburg now stood on the brink of political-social revolution. Ever since the erection of the theocracy in Muenster in Westphalia in 1534, the situation in Augsburg became more worrisome. Ulm was conspicuous in its support of the radicalization of Augsburg.⁶⁶ It was no longer possible to count on the security which Fugger money had previously enjoyed. The era of Jakob the Rich, Maximilian I and Charles V was evidently over.

But the usury issue remained unresolved. The whole population was involved in usury. Even farm hands and the parlor maids were depositing their savings, even if were only 10 Gulden, at five percent interest and deriving profit from it.⁶⁷ The swabian merchants needed to think long and hard whether they, like the Welsers, wanted to be considered "usurers" in the eyes of the Habsburgs. How was it that merchants like Hochstetter ended up in debtors' prison, while the government could violate the simplest business contracts with impunity, which if performed by private persons would eventuate in jail sentences?⁶⁸ As a consequence of additional economic claims there was a crisis in tyrolean finance during the late summer of

1534. The arrival of Ferdinand, who wanted another 35,000 Gulden of Fugger money, was a cause of concern. These methods led to bankruptcy in the private sector. Even big name companies weren't spared this sort of threat, as the terrible end of Ambrosius Hochstetter proved. He died in chains in Augsburg in the fall of 1534 and traveled in a coffin back to his ancestral estates at Burgwalden, which had passed in the meantime into the hands of the Fuggers.⁶⁹

The era of Jakob the Rich, Maximilian I and Charles V was over in other ways as well. During the final hours of October 12, 1534 rumors began to spread through the streets and palaces of Rome that Farnese had been elected pope.⁷⁰ Anton was gearing up for financing another papal election, but, unbeknownst to him, bribery had gone out of style. The counter-reformation which he had done so much to fund in Germany had begun in Rome without him. The era of the Renaissance and the unscrupulous methods which had accompanied it had obviously run out. The overwhelming majority at the conclave confirmed the elevation of Alexander Farnese. The new pope gave himself the name of Paul III. Anton hadn't read the signs of the times. Even though he was a dedicated enemy of the reformers, he had no qualms about using bribery, which was repugnant to both reformers and counter-reformers. The student of Johann Zink failed to understand that it was not possible to renew the church by repeating the old errors.⁷¹

Anton's failure to understand how the Church had changed in Rome did not prevent him from funding her efforts elsewhere. Because he did not have to bribe cardinals in Rome freed his capital for more worthy ventures. For the moment the Habsburgs linked the leading financiers of upper Germany to the Donauwoerther League as silent partners. By doing that they secured the financial backing for the re-Catholicization of the empire and the re-establishment of the image of the emperor in the eyes of central Europe.⁷² After the nuncio had experienced the anticlericalism of the common man in Swabia first hand, he was keen on establishing contacts with the biggest Catholic firm. However, neither the nuncio nor Anton himself were in a position to restore the old faith in Augsburg.⁷³ The Protestants continued their attack on the preaching cloister. The monks were forced to flee. When part of Melanchthon's correspondence fell into the hands of the Fuggers, they began to understand the magnitude of the evil confronting them and considered themselves lucky that their merchant assistant wasn't tried for witchcraft. The reformation on the Lech continued unabated.

In spite of his mistakes, Anton was a master at never losing sight of the big picture, and being able to close deals big and small with a calm assurance. Anton risked everything to prepare for Charles V's north African offensive against the sultan.⁷⁴ The glorious capture of Goletta on July 14, 1535, as well as the following conquest of Tunis and the threat that posed to

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Algiers largely because of Andrea Doria's Christian flotilla, was seen with justification as the success of Fugger and upper German capital power and their financial organization. Without the help of the Augsburger bank the successes of the double eagle on the north African coast would have been impossible.

In the morning hours of December 3, 1535, Raymond Fugger died prematurely of a stroke.⁷⁵ Unlike his younger brother Anton and his famous uncle Jakob, Raymond was content to accumulate honorary titles as the oldest of his generation.⁷⁶ When, according to ancient custom and as an expression of their grief, Anton prepared to distribute both money and clothing among the needy of Augsburg, the city council stepped in and prohibited it.⁷⁷ Raymond never let a poor man leave his house empty handed. The workers received food and drink. He invited them to his table and visited their houses. No one felt that he looked down on them. The sick who showed up at his door were received by him in person. They got a friendly word and good advice, "As a result he received love and praise from everyone." He "paid poor people and everyone handsomely, and offended no one."⁷⁸ Raymond was "gentle" and "mild". He was so generous that he was considered a "father to the poor." After the death of Raymond, the younger brother went from being *primus inter pares* to sole proprietor. In spite of their victories over the Turks and unruly Hungarians, the Fuggers were nonetheless falling into the position of the creditor who cannot get loose from his debtors without threatening his own existence and end up throwing good money after bad.⁷⁹ In 1536 Anton Fugger and his company entered into the most dangerous epoch of their existence.⁸⁰

Germany would be crippled by the Reformation for centuries to come. The Reformation in Germany was accompanied by the uprisings of miners, peasants and other workers, which obscured its connection to capitalism so effectively that not even a mind as acute as Max Weber's could figure it out. Even in Germany, however, the Reformation was a looting expedition, but because of the fragmented political nature of the Holy Roman Empire, no one prince could enrich himself with the entire wealth of Church property. Capital formation was limited by the size of the principality and the amount of Church property any one prince could seize. As a result, capitalism did not develop in the lands where the Reformation started. It developed in England instead.

Endnotes

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Chapter Thirty-One

The Crisis in England

During June and July 1535, Bishop John Fisher of Rochester and the ex-chancellor Sir Thomas More were beheaded because they refused to deny the pope's legitimate authority by swearing the oath of royal supremacy to the King of England, Henry VIII.¹ Anton Fugger heard the report of the killings but only as if from some great distance and emanating from people of a different race. The firm's relatively weak position in England prevented him from intervening in the crown's battle with its Catholic subjects. The British isles lay at the periphery of Anton's sphere of influence, and in June 1535 his powers were focused on the Habsburgs' upcoming north African campaign, which reached a successful conclusion a month later.²

For almost a decade the situation in England had been going from bad to worse. In 1526 Henry VIII, King of England, petitioned the pope for permission to divorce his wife of 17 years, Catherine of Aragon. The king had fallen for Anne Boleyn (or Bullen), who had most probably learned the art of seduction during her stay at the court of Queen Margarite of Navarre, which was "one of the most corrupt courts in contemporary Western Europe, and if Anne was not already that way inclined (Sanders tells us that she had been sent away due to her committing certain 'infelicities' with both her father's butler and the chaplain) it appears that she threw herself wholeheartedly into the court's extracurricular activities."³ Judaizing religion of the sort promoted on the continent among the reformed clergy played a role in Henry's seduction as well. Henry, after reading the Old Testament, concluded that his relationship with Catherine of Aragon was incestuous because that lady had been married to his older brother, even though the queen maintained to her dying day that that first marriage had never been consummated. Henry's claim to be living in an incestuous relationship was redolent with irony, especially since Anne Boleyn was, according to more than one account, the illegitimate fruit of an affair which Henry had carried on with Anne's mother Elizabeth.⁴ Belloc cites Dr. Bayley's life of Bishop Fisher, in which "it is positively asserted that Anne Boleyn was the king's daughter."⁵ Whatever the case, the king married his pregnant mistress in a hurried, secret ceremony in January of 1533. In April of 1533, one month after Henry had convinced Pope Clement VII to install Thomas Cranmer, the secretly married Lutheran who used to have his wife transported around in a box with holes drilled in it, as Arch-

bishop of Canterbury, Cranmer himself referred to the union with Anne as "incestuous intercourse."⁶

Just before he was consecrated bishop Cranmer went into a side chapel and swore an oath that he did not intend to bind himself by the oath he was about to take. It was a bit like the man from Crete claiming that all Cretans were liars. It was impossible to decide which oath was binding because the man who took them had nothing but contempt for the truth. From this moment on, wealth and power would be the main criteria for action in England; everything would have to "include . . . itself in power." Cranmer had to learn the hard way in the expensive school of experience that he was going to be no exception to the rule. He would go on to lose his head a few years later when the universal wolf ate him up,⁷ but all that was in the future. Cranmer made a habit of swearing contradictory oaths. Nine hours before he was to be burned at the stake as a heretic, Cranmer recanted his errors and was reconciled to the Catholic Church. Then at the pyre itself, "he recanted his recantation, thrust into the fire the hand that signed it, and thus expired, protesting against that very religion in which, only nine hours before, he had called God to witness that he firmly believed."⁸

On Whitsun day 1533 Anne Boleyn was crowned Queen. At this point, "the notoriously vacillating Pope Clement VII was gripped by a rare bout of uncharacteristic decisiveness" and declared not only that the marriage to the Bullen woman was null and void but also that any children issuing from this union would be illegitimate.⁹ Henry, enraged by the pope, besotted by lust, and manipulated by Cranmer and the Lutheran faction, resolved to confiscate Church property in England.

In September 1533, Anne gave birth to the woman who would go on to become Queen Elizabeth. In 1534 Parliament passed the Act of Supremacy, making the king the head of the Church in England. The result of the Act of Supremacy was widespread misery:

As this church, "by law established" advanced, all the remains of Christian charity vanished before it. The indigent, whom the Catholic Church had so tenderly gathered under her wings were now, merely for asking alms, branded with red-hot irons and made slaves, though no provision was made to prevent them from perishing from hunger and cold; and England, so long famed as the land of hospitality, generosity, ease and plenty, and security to person and property, became under a Protestant church, a scene of repulsive selfishness, of pack-horse toil, of pinching want, and of rapacity and plunder and tyranny that made the very names of law and justice a mockery.¹⁰

Parliament then passed the Act of Succession, which "legalized Henry's marriage with Anne Boleyn, as well as decreeing that any children of theirs would be legitimate heirs of the crown."¹¹ Cobbett claims that "The couple jogged on apparently without quarreling for about three years" because

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Henry had “begun the grand work of confiscation, plunder and devastation” and as a result did not “have a great deal of time for family squabbles.”²

In January 1536 Queen Catherine died, and five months later the king's new wife died as well after being charged with treason, adultery and incest with her brother Lord Rockford. Between those two events, in March of 1536, Parliament decreed the looting of 376 monasteries. The main executor of that plan was Thomas Cromwell, Thomas More's successor, who had arranged a “visitation” of the monasteries the year before to ascertain where the loot might be found. Another result of that visitation was to find evidence of moral dereliction that could be used as a pretext to seize the property of the monks and nuns.

Like Jakob Fugger, Cromwell had spent his youth in Venice, where he learned the usury trade. Unlike Jakob Fugger, Cromwell served the Venetians as a mercenary. Like Jakob Fugger, Cromwell returned to his native land to put what he had learned in Italy into practice, but unlike Jakob Fugger, Cromwell put his understanding of finance in the service of the new gospel which Luther and Calvin were preaching on the continent, and which the Fugger family abhorred. Luther hated the Fuggers and the economic system they helped create in the Germanies, but according to the cunning of reason, it was the Protestants in England who were the first to declare that usury was no sin. At that point England made the system of state-sponsored usury which came to be known as capitalism the law of the land and the economic system of the modern world. The first step was to pass acts taking from the pope all authority and power over the Church in England and giving to the King all authority as to ecclesiastical matters.

Once the Parliament had been cowed into making a king into a pope and a bastard into an heir, it could hardly object to turning the church's property into the king's personal treasure chest. With the vision of what had happened to John Fisher and Thomas More still fresh in their minds, the Parliament was in no mood for resistance when it came to the theft of church property. It was either share the loot or share the fate of Fisher and More. Or as the king put it, “I hear (saith he) that my bill will not pass, but I will have it pass or I will have some of your heads.” At that point, “the bill passed, and all was given him as he desired.”³

What followed was without precedent in the history of Christian England, both in the ferocity of the looters and the defenseless surprise and horror of the victims. Cobbett captures the gist of what happened in his compelling account:

Think of a respectable peaceful, harmless and pious family broken in upon all of a sudden, by a brace of burglars, with murder written on their scowling brows, demanding an instant production of their title-deed, money and jewels; imagine

Barren Metal

such a scene as this and you have then some idea of the visitations of these monsters who came with the grimace of the tyrant on their lips, who menaced the victims with charges of high treason, whose recluse and peaceful lives rendered them wholly unfit to cope with at once crafty and desperate villainy.¹⁴

The wealth the monasteries had accumulated over 900 years disappeared forever in a matter of weeks. It included the gold which had been passed on from antiquity and found service in adorning the altars of the kingdom, where it served not only as a store of value but a reminder that the purpose of all earthly possessions was in service to the world to come. The gold which had adorned sacred books was ripped off of that which it adorned, which was then trodden into the mud in the looters' haste for more plunder:

Never, in all probability, since the world began, was there so rich a harvest of plunder. The ruffians of Cromwell entered the convents; they tore down the altars to get away this gold and silver; ransacked the chests and drawers of the monks and nuns; tore off the covers of books that were ornamented with the precious metals. These books were all in manuscript. Single books had taken, in many cases, half a lifetime to compose and to copy out fair. Whole libraries, the getting of which together had taken ages upon ages and had cost immense sums of money, were scattered abroad by these hellish ruffians, when they had robbed the covers of the rich ornaments. The ready money, in the convents, down to the last shilling was seized.¹⁵

Cowed by the king's threats, the leadership class in England turned on their own people. This looting of 645 monasteries, 90 colleges, 110 hospitals and 2374 chantries and free chapels did more than deprive the people of England of a wealth of property put to social use; it brought about the redefinition of property itself. A century and a half after the looting, the Whig placeman John Locke redefined the notion of private property as absolute in both right and use in a way that was congenial to the descendants of the looters who reasserted their hegemony in the wake of the consolidation of Protestant power that took place at the time of the Glorious Revolution. The change in the conception of property in England began in practice—not in theory—when Parliament, reacting to the carrot of shared loot and the stick of ignominious death, agreed to condone the king's theft. "To obtain that concurrence of the parliament, he held out to those who composed it, a participation in the spoils of the monasteries."¹⁶ Theory followed praxis; praxis did not follow theory, as Tawney indicated in *Religion and the Rise of Capitalism*. Capitalism did not flow from Protestant theology; Protestant theology came into being as a justification of Capitalism and the looting upon which it was based. Tawney claims that the epitaph of property was written by Locke when he wrote that "The supreme power cannot take from any man any part of his property without his own consent."¹⁷

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Since Capitalism was born out of theft, in particular the theft of Church property which the Whig magnates still held tightly in their grasp, Locke's definition is rich in irony, an irony not lost on Tawney who claims that Locke's platitudinous redefinition of property was "forgotten as soon as it was written. For to the upper classes in the 18th century, the possession of landed property by a poor man seems in itself a surprising impertinence which it was the duty of Parliament to correct, and Parliament responded to the call of its relatives outside the House with the pious zeal of family affection."⁸

Unlike the religious leaders of the Reformation, who all sounded like Scholastics when they wrote about economic matters, Locke granted property unheard of rights. In fact, there is something bordering on the sacred in Locke's redefinition of property rights.

The key to understanding the origin of capitalism, however, is praxis not theory, and the main instance of praxis which theory needed to justify in subsequent generations was the theft of Church property. The looting was the fait accompli around which all other theory needed to be arranged. The looting was the original sin of English capitalism which all subsequent theory was created to justify. Theology was nothing more than a pretext to distract the populace from the looting of its spiritual and material patrimony. Tawney catches the gist of the transaction nicely when he writes that "The upstart aristocracy of the future had their teeth in the carcass, and, having tasted blood, they were not to be whipped off by a sermon."⁹

It was only with the gradual acceptance of the looting that ideas, financed largely by the looters, began to change. Even David Hume, no stranger to the Whig financing of ideas, claimed that Church property, having social use, influenced the idea of what property was when he wrote about the monks, "Not having equal motives to avarice with other men, they were the best and most indulgent landlords."²⁰ Cobbett seconded his thought when he wrote: "When the church's lands became private property, the rents were raised, the money spent at a distance from the estates, and the tenants exposed to the rapacity of stewards."²¹ Concretely, the social use of property as inaugurated by the Catholic Church in England meant that even in Surrey, a section of England with "very little natural wealth in it,"

It would have been a work of some difficulty for a man so to place himself, even in this poor heathy county, at six miles distance from a place where the door of hospitality was always open to the poor, to the aged, the orphan, the widow and the stranger. Can any man now place himself in that whole county within any number of miles of any such door?²²

The Reformation was a looting operation in both England and Germany, but it was carried out more effectively, more ruthlessly in England, where power was more centralized. Pesch claims that economic progress

ended with the Reformation:

The era of humanism and of the Reformation constitutes a deep incursion into the continuing economic, and especially into the agricultural conditions in Germany. With it begins a new period. The continuity of prior development is interrupted, and the peasant middle class is destroyed and the farmer himself reduced to most degrading serfdom.²³

In order to cow the Catholic populace into accepting the new order of things and to safeguard their newly acquired loot, the representatives of the new capitalist regime had to devise what Pesch calls "the absolute police state of the early modern era" to keep everyone in line. This police state "represented a relapse back toward the ancient state of the Roman imperial era," and it "brought with it an intolerable excess of state sovereignty." That meant that "there was virtually no recognition of any legal limits to state dominion over its citizens."²⁴

The economic theory which accompanied this police state was mercantilism. The goal of mercantilism was the accumulation of gold by the state and by the powerful actors who controlled the affairs of state. The modern state, and in particular Holland, France, and England in this period, was to conduct its affairs from a point of view divorced from moral considerations. "The moral law, integrity, justice and humanity for all practical purposes no longer had any bearing on regulating international relations. Impassioned selfishness, brutal supremacy, malice and cunning decided all issues."²⁵ The entire period from 1600 to 1800 was "one marked by warfare lasting for years and decades."²⁶

Any economic system this brutal and wasteful was bound to cause a reaction, and mercantilism was no exception, giving birth by way of reaction to the idea of laissez faire economics which became the dominant economic theory in England and France by the late 18th century and early 19th centuries. "The excess of regulation gave rise to the desire for greater freedom, and it eventually put an end to the police state. . . ."²⁷

Both mercantilism (or nascent capitalism) and the laissez-faire capitalism which succeeded it shared a contempt for the moral law, something which would have increasingly disastrous consequences because "If there is no recognition of a natural law, the state is left to its own resources; its only underlying basis then is force and violence which have to bow before superior power and greater force of a successful revolution."²⁸ The dialectic which eventuated in capitalism reached fruition in the 19th century, when it was confronted by its nemesis revolution, but it began in the 16th with the looting of Church property.

Shakespeare, who wrote in the aftermath of the great looting of Church property, when it was still a memory fresh in the mind of every Englishman, encapsulated the essence or unwritten constitution of the new regime

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in Ulysses' famous speech in *Troilus and Cressida*, when he predicted that removing statecraft and economic life from the purview of the moral law would bring about a state in which

... everything includes itself in power,
Power into will, will into appetite,
And appetite, a universal wolf,
So doubly seconded with will and power,
Must make perforce a universal prey
And last eat himself up.²⁹

The creation of "private property" in the modern sense of the term, which is to say, property over which the owner had absolute rights, was both a consequence of the looting and a reaction to the insecurity which it engendered, lest another thief come along and steal the stolen goods from the thief who stole them in the first place. Both private property and capitalism found their origin in the looting operation which was sanctified under the name of religious reform:

Like all the other wild schemes and cruel projects relative to the poor, we trace it at once back to the "Reformation," that great source of the poverty and misery and degradation of the main body of the people of this kingdom. The "Reformation" despoiled the working classes of their patrimony; it tore from them that which nature and reason had assigned them; it robbed them of that relief for the necessitous, . . . which had been confirmed to them by the law of God and the law of the land. It brought a compulsory, a grudging, an unnatural mode of relief, calculated to make the poor and the rich hate each other, instead of binding them together as the Catholic mode did, by the bonds of Christian charity. But of all of its consequences that of introducing a married clergy has, perhaps, been the most prolific in mischief. This has absolutely created an order for the procreation of dependents on the state: for the procreation of thousands of persons annually, who have no fortunes of their own and who must be somehow maintained by burdens imposed upon the people.³⁰

For 900 years, human labor had been stored in England's monasteries, where it was put to social use. That stream of labor was diverted by the looting, and from then onward the wealth of England flowed into the pockets of a few influential looters and the rest of the population was left to its own devices, which meant more often than not, pauperism, poverty and proletarianism. Cobbett traces "the immediate cause" of "the poverty and degradation of the main body of the people . . . back to the Reformation, one of the effects of which was to destroy those Monastic institutions, which . . . retain the produce of labor in the proper places and distributed it in a way naturally tending to make the lives of the people easy and happy."³¹

As in Florence during the 15th century, the cleverest thieves became bankers. Thomas Cromwell, who learned Italian financial techniques in Venice, soon started lending the wealth he acquired from looting at usuri-

ous interest rates. The clever looters could acquire the property of the less clever looters by foreclosing their mortgages when they could no longer meet their mortgage payments. As the property of the church migrated from the hands of the looters into the hands of the usurers, the new economic regime which had grown up in violent reaction to the Catholicism of the Middle Ages and which we call Capitalism took on its final form and became a regime of state-sponsored usury. Capitalism always begins with the appropriation of labor. In this instance, it began with the confiscation of the labor that had been accumulated in monasteries, which was then transferred into the hands of absentee landlords, who, if they mortgaged their property, ended up handing it over to the usurers. The revenues which used to accrue from the application of labor to the soil and were held in trust by the monasteries were now "carried away to a great distance, and expended amongst those from whose labor bore no part of them."³²

"Plunder," Cobbett says by way of summation, "was the mainspring of the 'Reformation. . . . The 'reformation' was not the work of virtue, of fanaticism, of error, of ambition, but of a love of plunder. This was its great animating principle; this it began in; in this it proceeded till there was nothing left for it to work on."³³

By May 1536, the king had tired of looting for the nonce. With his greed satiated for the moment, he returned to his primary vice, lust, newly awakened by Jane Seymour, whom Anne unluckily discovered sitting on the king's knee. Jane Seymour finally provided the king with a male heir. The future King Edward was a sickly child who never knew his mother because her life had been sacrificed at his birth by a king avid for a male heir.

On May 19, 1536 Anne Boleyn was beheaded in the tower after having been accused of incest. She was guilty, of course, since she had after all married her father when she married Henry VIII, but the charges referred to her alleged relations with her brother, who was also executed for the same crime. Cobbett describes the legislation of March 1536 as "an act of sheer tyranny."³⁴ The act enabling the confiscation of Church property:

began the ruin and degradation of the main body of the people of England and Ireland; as it was the first step taken, in legal form, for robbing the people under the pretense of reforming their religion, as it was the precedent on which the future plunderers proceeded, until they had completely impoverished the country; as it was the first of a series of deeds of rapine by which this formerly well-fed and well-clothed people have in the end been reduced to rags and to worse than jail allowance for food.³⁵

The looting of Church property in England took place on an unprecedented scale. The princes in Germany, no less rapacious than the King of England and no less avid in their greed to seize Church property, simply could not carry the looting out on such a grand scale because of the limited

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size of their domains. The monasteries which the Benedictine monks had founded almost a millennium ago represented a store of value which enriched the country by putting that stored wealth at the service of the common good. A monastery, according to Cobbett,

was the center of a circle in the country, naturally drawing to it all that were in want of relief, advice, and protection, and containing a body of men or of women, having no cares of their own and having wisdom to guide the inexperienced and wealth to relieve the distressed.³⁶

What preceded that theft was 900 years of labor in the form of Christian culture which had decreed that property was to be put to social use. By the time Cobbett wrote his jeremiad, that idea had disappeared from the mind of the Englishman who by then had convinced himself that the wretched poverty which the workingman suffered in the 19th century had always existed. As Cobbett put it, "Englishmen in general suppose that there were always poor-laws and paupers in England. They ought to remember that for 900 years under the Catholic religion there were neither."³⁷

The looting of Church property in England marked the beginning of modern capitalism. Capitalism, as subsequent centuries would show, would never grow beyond its origins in looting. The looting of Libyan assets by the American Secretary of State in the spring of 2011 could be traced backward in a direct line to the looting of Church property in 1536 as two different expressions of capitalism's formal causality. Religious reform was used as the theoretical justification for the looting in England then every bit as much as humanitarian concern was used in 2011 to justify the looting of \$30 billion in Libyan assets. Then as now, "Religion, conscience was always the pretext, but in one way or another, robbery, plunder was always the end."³⁸

Shakespeare agreed with Cobbett but was unwilling to lose his head for the privilege of saying so explicitly, and so he set the dramas which couched his critique in safely distant ancient lands. Ulysses' speech in *Troilus and Cressida* is nothing if not a damning description of the trajectory of revolutionary capitalism. The same holds true of Timon of Athens. When Timon is informed by Flavius his steward that his extravagance has led to insolvency, Timon, like one of the looting lords in England, tells him, "Let all my lands be sold,"³⁹ apparently unaware that they are already mortgaged to the hilt.

Flavius: 'Tis all engaged, some forfeited and gone
And what remains will hardly stop the mouth
Of present dues. The future comes apace.
What shall defend the interim? And at length
How goes our reckoning?

Timon, the great landowner, is stunned by the revelation that he is out of money and can only exclaim, "To Lacedaemon did my land extend."

Like the less clever looters in England, Timon failed to understand that the looting didn't stop when the last monastery fell into private hands. What followed the first wave of looting was usury. Shakespeare was too young to have been an eyewitness, but the experience was so universal that it was fresh in everyone's memory. The Reformation brought about the rise of usury by suppressing the Church, which had been the only bulwark against it:

The Catholic church held the lending of money for interest, or gain, to be directly in the face of the gospel. It considered all such gain as usurious and of course criminal. It taught the making of loans without interest, and thus it prevented the greedy minded from amassing wealth in that way in which wealth is most easily amassed. Usury amongst Christians was wholly unknown until the wife-killing tyrant had laid his hands on the property of the church and the poor.⁴⁰

Once the influence of the Catholic Church was destroyed, usury made a rapid return and England became "a den of thieves and of thieves too, of the lowest and most despicable character."⁴¹ That usury followed hard on the heels of looting is both the plot of *Timon of Athens* and the experience of the generation of Shakespeare's father. "Before two lifetimes had passed, very nearly the whole of the loot had left the hands of the impoverished crown, and was in the power of the new millionaires, and their landed class had already begun to govern England and to destroy the old popular monarchy of the English."⁴²

England was now ruled by a clique of usurers, as Alcibiades, the soldier who shed his blood defending Athens, learns to his shock and chagrin when he is banished. "Banish me?" Alcibiades exclaims. No, he declaims, rather "Banish usury" instead, because it is usury "that makes the senate ugly."

I have kept back their foes
While they have told their money and let out
Their coin upon large interest—I myself
Rich only in large hurts. All those for this?
Is this the balsam that the usuring Senate
Pours into captains' wounds? Banishment?⁴³

England, like the Athens of Shakespeare's play, was now ruled by a clique of usurers:

In London, groups of tradesmen . . . formed actual syndicates to exploit the market. Rack-renting, evictions, and the conversions of arable land to pasture were the natural result, for the surveyors wrote up values at each transfer, and unless the purchaser squeezed his tenants, the transaction would not pay.⁴⁴

Once the looters realized that they could mortgage the properties they had stolen in exchange for ready cash, that cash began to chase property and an orgy of land speculation followed. The "furor of land specula-

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tion" which took place between 1540 and 1550 began when the guilds and chantries which came onto the market in 1547 were added to the Abbey lands which had come onto the market a decade earlier. These lands were "bought for the rise." The land was now owned not to bring forth food but rather to be held for a time and sold for a profit so that the speculator could make a profit off of the on-going real estate bubble, a practice which would have serious consequences for labor.

The lands of the Abbey of Whitby, for example, pass first to the Crown, and are then sold by it to the Duke of Northumberland, who in turn sells them to Sir John Yorke. . . . When property changed hands three times in the course of ten days, it could hardly fail to be rack-rented or the transaction would not pay. What happened to the tenants? Here and there, as at Whitby and Washerne, a bitter outburst against their new masters shows that the result has been what we should expect. But for the rest, a cloud descends and we cannot say. It is only in such occasional glimpses that we catch the solid earth shifting beneath the feet of those who till it.⁴⁵

Speculation led to rack-renting and enclosure, and enclosure led to expulsion from the land, vagabondage and poverty:

Observers were agreed that the increase in pauperism had one capital cause in the vagrancy produced by the new agrarian regime; and the English Poor Law system, or the peculiar part of it providing for relief of the able-bodied, which England was the first of European countries to adopt, came into existence partly as a form of social insurance against the effect of the rack rents and evictions, which England was the first European country to experience.⁴⁶

By 1548, the seizure of Church property had led to the enclosure crisis. For centuries England's main export had been wool, first raw wool to the weavers of Florence and then as finished cloth to the markets in Antwerp. Once the lords of manors had acquired large tracts of church land by theft they had no compunction about "the cutting adrift of a piece of land from the common course of cultivation in use, by placing a hedge or paling round it, and utilizing it according to the discretion of the individual encloser, usually with the object of pasturing sheep."⁴⁷

The issue of enclosure had been around since at least 1460 when Medici agents were buying up wool for their textile factories in Florence. At that time, a chantry priest in Warwickshire wrote a detailed account of its effects. If, however, the problem was acute long before the confiscation of the monastic estates, its aggravation by the fury of spoilation let loose by Henry and Cromwell is not open to serious question. "The greatest popular outcry against enclosing occurred about the middle of the 16th century, in the years 1548 to 1550."⁴⁸ "Agrarian plunder," Tawney tells us, "stirred the cupidity of the age," and "for ten years a sinister hum, as of the floating of an immense land syndicate, with favorable terms for all sufficiently rich,

or influential or mean to get in on the ground floor"⁴⁹ provided the background noise of an immense looting operation. The movement began with the greed of the landlords but it was

accompanied by land speculation and rack-renting, which is intensified by the land hunger which causes successful capitalists who have money in trade, to buy up land as a profitable investment for their savings, and by the sale of corporate property which took place on the dissolution of the monasteries and the confiscation of part of the gild estates.⁵⁰

The first consequence was a rise in prices; the second was a drop in employment as small holdings are throw together and the laborer "is driven off the land, either by direct eviction, or by a rise in rents and fines or by mere intimidation."⁵¹

In the wake of the Reformation a pall settled over England. The enclosures led to "a drift into the towns and a general lowering in the standard of rural life, due to the decay of the class which formerly sent recruits to the learned professions, which was an important counterpoise to the power of the great landed proprietors, and which was the backbone of the military forces of the country."⁵² This pall was coincident with capitalism, and it has never been dispelled. The looting of the monasteries caused a disruption of the social order that drove men into bankruptcy and then turned them into revolutionaries.

After Timon discovers that he is bankrupt, he urges those who find themselves in a similar situation to turn on their new masters:

Timon: Bankrupts, hold fast.

Rather than render back, out with your knives,
And cut your trusters' throats! Bound servants
Steal!

Large-handed robbers your grave masters are,⁵³

Timon, now living in a cave by the seashore, discovers gold while looking for a root to eat. He then gives a speech indicating that gold has brought about the transvaluation of all traditional values:

What is here?

Gold? Yellow, glittering, precious gold? No gods,
I am no idle votaries. Roots, you clear Heavens!
Thus much of this will make black white, foul fair,
Wrong right, base noble, old young, coward valiant.
This yellow slave

Will knit and break religions, bless the accursed,
Make the hoar leprosy adored, place thieves,
And give them title, knew and approbation
With Senators on the bench. This is it
That makes the wappened widow wed again—

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She, whom the spital house and ulcerous sores
Would cast the gorge at—this embalms and spices
To the April day again. Come, damned earth,
Thou common whore of mankind, that put'st at odds.
Among the rout of nation, I will make thee
Do thy right nature.

Timon addresses his speech to two whores, who accompany Alcibiades as camp followers of his army. Whoring becomes a metaphor for commerce corrupted by usury because, as Timon puts it, "They love thee not that use thee." Since usury is universal, the revolutionaries will have to kill everyone:

Let not thy sword skip one
Pity not honored age for his white beard.
He is an usurer.

The prospect of wide-spread slaughter hardly concerns Timandra the whore. She represents the universal corruption which has descended on England in the wake of the looting of Church property. Like Cranmer, the representative of the first estate, and Cromwell, the representative of the second, Timandra wants "more gold." She tells Timon: "Believe't that we'll do anything for gold."⁵⁴

As in Athens so in England, usury brought about insurrection. Speculation led to rack-renting and enclosure. Rack-renting and enclosure led to insurrection. "The people heartily detested these Protestant tyrants and their acts. General discontent prevailed, and this in some areas, broke out into open insurrection."⁵⁵ The difference between the story of England and the story of Timon of Athens is that the English Catholic peasants found no leader like Alcibiades because the gentry had been bought off by the loot. Their support was:

purchased by ensuring that every one who counts shall have a solid material interest in supporting the new order. The great Elizabethan families the Cecils, the Herberts, the Grenvilles, are well paid in advance for their services and continue to be paid long after their services have ceased. The dissolution of the monasteries does for their plastic consciences what the foundation of the Bank of England did for the politics of the City Interest under William III.⁵⁶

By the end of the 19th century the plundered property had ended up in the hands of the most ruthless usurers, namely, the Jews. Cobbett claimed that Sir Thomas Baring and the banking family he led were the true successors of Alfred the Great because the Barings were able to appropriate the estates of looters like the Russell family via usury, the newest form of warfare.

Unlike the situation in Shakespeare's play, the insurrections in England failed time and time again:

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The people here and there rose in insurrection against the tyrant's satellites; but deprived of their natural leaders, who had, for the most part, placed themselves on the side of tyranny and plunder, what were the mere common people to do? . . . One insurrection was put down more brutally than the other as the English capitalists consolidated their power.⁵⁷

The trajectory which Ulysses sketched out in his speech continued as insurrection led to repression. The protectors of young king Edward fought with each other over the loot. Warwick seized power from Somerset in 1549 and turned on the peasants who had torn down the hedges of those who had expelled them from the land. In a land ruled by thieves repression was the only answer to insurrection. Tawney compares Warwick's policy to "the attitude of the panic-stricken aristocracy of the early 19th century toward trade unions. . . . Under an act of 1550 all meetings of the peasantry were treated as a sort of 'illegal conspiracy.' Any forty of them who assembled to break down an enclosure might be condemned as traitors."⁵⁸

The tyranny of the oligarchs who ruled from 1549 to 1553 marked the nadir of peasant life in 16th century England. Agrarian insurrection ceased during the reign of Elizabeth, most probably because the looters had reached the limits of profitable pasture-farming, and more enclosures would have led to a drop in price. When it came to labor the Reformation had established a dangerous precedent. Warwick's land policy "was exactly what it seemed to be, a straight-forward attempt to prevent the poor from protesting when their possessions were taken from them by the rich."⁵⁹

After it had been ripped out of its medieval Catholic matrix, property became an object of speculation, and each new purchase was burdened with usurious debt, which necessitated both rackrenting and, worse, enclosure, which meant the expulsion of the peasantry from the only means of livelihood that they had known for almost a millennium and the creation of the proletariat which would haunt England for centuries to come. The Reformation gave birth to a new conception of property:

That creed was that the individual is absolute master of his own, and within the limits set by positive law may exploit it with a single eye to his pecuniary advantage, unrestrained by any obligation to postpone his own profit to the well-being of his neighbors, or to give account of this actions to a higher authority. It was, in short, the theory of property which was later to be accepted by all civilized communities.⁶⁰

A "rapacious oligarchy of adventurers"⁶¹ ruled England. Abstract production figures replaced the human beings who were the beneficiaries of the old economic system, and "the aim of maintaining a prosperous peasantry" became "subordinate to that of obtaining the maximum output from the soil."⁶² The commons, which had served the needs of the people for nine centuries, were now designated "waste lands," and the only way

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that "waste lands" could be improved was to place them under the control of those who had the capital to improve them. A new idea of the economy emerged from the enclosure crisis. "The subsistence husbandry of the medieval village" was succeeded by "capitalist agriculture."⁶³

Cromwell, who had learned the techniques of usury from the Venetians when he was a mercenary in their service, became enormously wealthy by lending his newly acquired loot out at interest and ensnaring thereby the property of less acute looters. By 1540 Cromwell "had obtained enormous wealth for his several offices, as well as from the plunder of the church and the poor,"⁶⁴ but he had outlived his usefulness to the king. Once he lost his usefulness, the wheel of fortune transformed him from an all-powerful oligarch to a prisoner awaiting execution in the course of one day, the 10th of June 1540. The haughty insolence he had shown to the monks and nuns when he was plundering their monasteries was replaced with the most obsequious groveling, as Cromwell pleaded for his life in letters to Henry which "fawned on him in the most disgusting manner; compared his smiles and frowns to those of God; besought him to suffer him to 'kiss his balmy hand once more, that the fragrance thereof might make him fit for heaven.'"⁶⁵ Cobbett concludes his account of Cromwell's rise and fall by claiming that he "deserved his death, if it had only been for writing these letters."⁶⁶

In order to extricate himself from problems of his own making, Henry VIII decided to debase the coinage in 1543. It wasn't the first time that the coinage had been debased in England. In 1299, Edward I cut 243 pennies out of every pound instead of the usual 240 pennies by weight.⁶⁷ By 1464, the number of pennies coined out of a pound sterling had risen to 450. According to de Roover, "The monetary policy of medieval governments in Western Europe can best be described as a general scramble for a dwindling supply of bullion."⁶⁸ The English crown, which was faced with a chronic balance of payments problem and consequent loss of bullion because their imports exceeded their exports, tried to remedy the problem by increasing the money supply by debasement. De Roover claims that:

there were recurrent complaints about the "scarcity of money" throughout the 15th century. In 1411 debasement was unavoidable "because of the great scarcity of money at this time in the realm of England." The same argument was used in 1464, probably not without justification, since the mints had not operated for some time.⁶⁹

Henry VIII outdid all of his predecessors by "reducing both the weight and the fineness" of the coins he issued.⁷⁰ In contrast to earlier devaluations, the Great Debasement, which began in 1543, was not dictated by economic necessities. It was a financial expedient which the government used deliberately as a means of providing sorely needed money and of filling

an empty exchequer.⁷¹ Despite the seizure of the monasteries, Henry VIII was not able to make ends meet until Sir Thomas Wriothesley, Secretary of State, showed him how to use the Royal Mint to debase the currency. The Great Debasement had such a catastrophic effect on English commerce and was ultimately self-defeating because "The king reaped the whole profit from the reduction of fineness and weight."⁷² If he had shared the benefits—by doubling wages, for example, the debasement would have simply increased the money supply. Done as Henry had done it, bullion disappeared at an even faster rate because "It became profitable to melt down all the silver coined prior to 1543." The first phase of the Great Debasement came abruptly to a close with Henry's death on January 28, 1547.⁷³ By this point in his vicious life, Henry had become such "an unwieldy and disgusting mass of flesh" because of his "gluttony and debaucheries," that he could only be "moved about by means of mechanical inventions."⁷⁴

Two years before his death, in 1545, Henry VIII was still in need of money in spite of the debasement and orgy of looting which he had set in motion nine years before. As a result he was forced to borrow 100,000 Flemish pounds from the Fugger family. Like Timon, Henry could exclaim, "To Lacedaemon did my land extend," but it did him no good because it was already mortgaged and the gold which he had stolen from the Church had slipped into the hands of the usurers.

When Henry died, he left the land which he had found in "peace, unity, plenty and happiness" when he acceded to the throne, "torn by factions and schisms, her people wandering about in beggary and misery."⁷⁵ The crown fared no better. "The Crown owed large sums of money, mainly to creditors on the continent, while the merchants complained that trade was almost at a standstill."⁷⁶ The Great Debasement had provided momentary relief but at the expense of English trade. English merchants soon found that buyers in Antwerp now refused to accept their coins at face value.

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Chapter Thirty-Two

Thomas Gresham

It is around the time of the Great Debasement that the name Thomas Gresham first appears in the annals of the English crown. Gresham's name "is mentioned in one of the dispatches of Seymour and Wotton to King Henry VIII, written from Brussels in the month of June 1543."¹ Another account mentions his name in connection with a purchase of gunpowder for the Crown in Antwerp in 1543.²

Thomas Gresham was born in London in the year 1519 to a well-connected family, which later grew rich from the looting of Church property. Tawney mentions Thomas's father as a land speculator in *Religion and the Rise of Capitalism*. The property which the courtiers had bought up at ridiculously low prices was in turn bought up by sharp businessmen like Sir Richard Gresham, "the largest single grantee" of stolen property in the City.³ "Of [Thomas's] youth we know nothing, except that he had the misfortune to be deprived of a mother's care at the tender age of three years, and that he was subsequently sent to Cambridge, and admitted a pensioner of Gonville Hall."⁴ There he "imbibed that attachment to the Protestant faith which is conspicuous in all his subsequent correspondence and for which his Hall was then distinguished."⁵ De Roover claims that Thomas's father, Sir Richard, "had enriched himself considerably with the spoils of the monasteries."⁶

After Thomas Gresham's years at Cambridge, his father bound him to his uncle Sir John Gresham as an apprentice. We can surmise that the apprenticeship was successful because in 1543 Thomas was admitted as a member of the Mercers club, the center of all commerce in England. In its original meaning the word mercer meant any dealer in small wares.⁷ Gradually, however, the term became synonymous with merchant and in the two centuries leading up to Thomas Gresham's admission to the society of Mercers, commerce meant mainly dealing in wool cloth, which began to be manufactured in England during the second half of the 14th century after Edward III lured Flemish weavers to England, where they became known as "merchant adventurers." The transplantation of the Flemish weavers to English soil proved so successful that Edward "soon prohibited the exportation of English wool" as a result.⁸ Wool was both "the principle article of export and the chief source of revenue" until the time of Elizabeth, when the mercers got involved in the production of silk. When Thomas Gresham became a member of the Mercers guild, "They virtually monopolized the

commerce in this country.”⁹

Like Jakob Fugger, Gresham married a wealthy widow, the former wife of Francis Bacon,¹⁰ and was considered a wealthy man even before his call to government service. No one did more during the 16th century to disprove Aristotle’s contention that money was sterile than Jakob Fugger and Thomas Gresham, and yet the sterility of the money they handled seems to have rubbed off onto their marriages. Like Jakob, whose marriage to Sybille Artzt bore no offspring, Gresham died without an heir. His wealth created the exchange and a palace, which later became the home of Gresham College.

Like Cromwell and Fugger, Sir Thomas Gresham was a product of the Italian Renaissance. Members of the Mercer’s club knew that Italy led the world in the development of financial techniques and instruments that both kept accurate account of wealth and brought about its increase. Salter claims that “The scholarship in Italy in the 15th century was better than anything that was to be seen in England for a long time to come.”¹¹ That scholarship combined with the writings of thinkers like Machiavelli, who liberated Renaissance man from the moral constraints of the past, provided swindlers like Thomas’s father with an opportunity to amass great wealth by swindling fellow looters out of their loot, and the Gresham family was not slow to act on that opportunity. “Men made fortunes quickly either from the commercial use they made of their lands, especially when given up to sheep farming, or from the monastic estates showered on his favourites by Henry VIII after the Dissolution.”¹²

Antwerp had succeeded Brugge as the center of the European financial universe, and the Fuggers, who had access to silver and gold mines in Habsburg domains from Peru to Hungary, represented ground zero of the Antwerp money markets. After the immense trade of Bruges was transferred to Antwerp in 1487, the latter city rapidly advanced in importance, until it became “the center of civilization and the most conspicuous commercial capital in Europe.”¹³ By the middle of the 16th century “two or three thousand ships could be seen at one time anchored in the Scheldt or loading and unloading at the quays,” and the Low Countries were at “the zenith of their prosperity.”¹⁴ The most important item of trade was cloth. One million two hundred thousand pounds sterling changed hands every year in Antwerp as English cloth was exported to pay for Dutch manufactures, which were then re-imported to England.

Because they had ready access to specie, the Fuggers were everyone’s first choice when it came to borrowing money. The Grand Duke of Florence, Cosimo I, from the house of Medici, showed up on the books of the firm around the turn of the century as one of their biggest customers.¹⁵ The Fuggers could have taken over European banking were it not for their com-

mitment to the credit demands of the Habsburgs, which left them chronically strapped for cash.

Largely because of the Fuggers, Antwerp became the place to go for money. Henry VIII's government decided to send Stephen Vaughn over to the continent as their permanent agent. Sensing that *het Fugger huys* in Antwerp was simply the firm's branch office, Vaughn spent much of his time at the Fugger firm's headquarters in Augsburg. By the time Vaughn arrived in Augsburg to negotiate loans to the English crown, the Fuggers had become a legend in their own time. Their name had become a synonym, like Croesus, for wealth, as one Frenchman noted, "*Ses richesses immenses ont donne lieu a une facon de parler qui est encore usitee dans ces provinces, ou l'on donne le nomme de riche Fokker a un homme d'une opulence peu commune.*"¹⁶ One member of the family had enough wealth to lend 1.2 million pounds sterling. They were everywhere recognized as the power behind the empire's throne.

Stephen Vaughn died in 1550 and was succeeded by Sir William Dansell, who proved quickly that he was totally inadequate to the task. As a result, in April 1551 Dansell was "revoked from his office of agent, by reason of his slackness."¹⁷ His removal paved the way for Gresham's rise. In either December 1551 or in the following January, Gresham was "called upon to serve the King" as his royal agent in Antwerp, the city which was to be his residence off and on for the next 15 years. Gresham's job was simple. "I was sent for unto the Council, and brought by them afore the King's Majesty" he tells us, "to know my opinion . . . what way with least charges His Majesty might grow out of debt."¹⁸

The issue was simple. Henry VIII was up to his eyeballs in debt, and it was Gresham's job to get him out of it. Since it soon became apparent that that was going to be impossible, Gresham settled for the less exalted task of rolling over the king's loans at interest rates that were as low as possible. The king's financial situation had become so alarming because his extravagance combined with the cost of his wars with France had forced him to borrow money, paying an annual interest on his bonds which amounted to 40,000 pounds.¹⁹ Since he was chronically strapped for cash, the king had to roll over each of his notes at ever higher interest rates, and in addition to that "he was required, at every renewal, to purchase jewels."²⁰ After landing the job as royal agent, Gresham moved with his wife and family to Antwerp, and established himself in the house of Jasper Schetz, who was "the principal factor to the Emperor Charles V,"²¹ because, as Willie Sutton might have said, "that was where the money was." Henry VIII's credit may have been bad, but by the time Gresham set up shop with the Fuggers in Antwerp it was "better tan the Emperor's, wyche I praye to the livinge God, long to contynue. For the now the Emperor gevethe xvi per cento, and yet

no monny to be gotten.”²²

Gresham’s actual accomplishments were much more modest than his reputation warranted. He was in Antwerp to borrow money for the king, and since it was impossible for the king to borrow his way out of debt, Gresham began looking for other ways to make money. The first remedy which he hit upon to alleviate the king’s indebtedness was stalling for time:

For the moment . . . there was nothing else to be done but to follow along the well-marked track of paying back as little as possible, prolonging the period of the debts where practicable, and always hoping that when payments did become necessary, you would be able to borrow money for the purpose at a rate of interest not appreciably higher than that at which the original loan had been contracted. Of more heroic remedies there was no sign, even from Gresham.²³

On August 21, 1552, Gresham wrote an exasperated letter to Northumberland, complaining that the only way he could arrange the repayment of the king’s debts was “to force men from time to time to prolong it.”²⁴

Gresham’s second remedy for the king’s debt was manipulating exchange rates. On April 16, 1553, Gresham wrote again to Northumberland requesting a weekly shipment of 1,300 pounds sterling to buy up currency and therefore drive its price up. By engaging in this strategem, “I doo not mistrust but in two yeres to bring the King’s Majesty wholly out of dett,” Gresham wrote.²⁵ Manipulating the exchange rate also fostered a favorable balance of trade: “For as the exchange rysethe, so all the commodites in England fallyth, and as the exchange fallyth, so all our commodities in England risyth.”²⁶

By buying and selling currency at crucial moments, Gresham was able to raise the exchange rate for the pound from 16 to 22 shillings Flemish, “at which rate he discharged all the king’s debts; and by this means money was rendered plentiful and trade prosperous, while the credit of the crown became established on a firmer basis abroad than it had ever been before.”²⁷ Gresham was effectively able to double the crown’s money.²⁸ The merchants, including the uncle who had given him his start in the merchant’s guild, weren’t happy, because his machinations drove up the price of their goods, but Gresham was now serving the crown’s interest not theirs, and Gresham would be justified in his dictum that “the exchange is the chiefest and richest thing only above all others. This thing is only kept up by art and God’s providence.”²⁹ De Roover claims that Gresham is the only one who came close to solving the bullion crisis which had plagued the Plantagenet, Tudor and Stuart Kings. Gresham’s “clever manipulation of the money market, actually succeeded in preventing a fall of the pound sterling and in raising the exchange in favor of England.”³⁰ By these combined means he would keep his treasure within his realm and extricate himself from the debts in which his father and the late Duke of Somerset had involved him.³¹

Thomas Gresham

Gresham's third remedy was forced loans, especially from the merchant adventurers, whose fleet would be held up just as it was about to set sail for Antwerp until the merchants agreed to "lend the King (through Gresham) certain sums of money in Antwerp which should be paid back later in London, the difference between the exchange rates in London and Antwerp would be used by the King for his own advantage."³² The merchant adventurers hated this sort of thing, but they had no choice in the matter. Gresham's reputation among the merchants went down, but the king's reputation as a sovereign who paid off his debts rose in the estimation of the money lenders, the only opinion that counted, and that allowed Gresham to borrow at rates lower than the Crown's extravagance should have allowed. Gresham rarely had to borrow at 14 percent per annum, a rate considered usurious at the time, whereas Charles V, even with the Fuggers as his personal bankers, often had to borrow at 16 percent. Nonetheless, even modest interest rates compound, and as a result England's foreign debt grew from 100,000 pounds in 1550 to 150,000 in the space of two years.³³

The fourth remedy for the king's indebtedness was to use the royal prerogative to create a monopoly of lead. The fifth and most successful remedy was piracy, but more on that anon.

Endnotes

- 1 John Burgon, *The Life and Times of Sir Thomas Gresham* (New York: Burt Franklin, no date), vol I, p. 48.
- 2 F. R. Salter, *Sir Thomas Gresham (1518-1579)* (London: Leonard Parsons, 1925), p. 27.
- 3 R.H. Tawney, *Religion and the Rise of Capitalism: a Historical Study*, Holland Memorial Lectures, 1922, (Gloucester, MA: Peter Smith, 1962), p. 138.
- 4 Burgon, p. 44.
- 5 Burgon, p. 45.
- 6 Raymond de Roover, *Gresham on Foreign Exchange*, (Cambridge, MA: Harvard University Press, 1949), p. 18.
- 7 Burgon, p. 185.
- 8 Burgon, pp. 187-8.
- 9 Burton, p. 187.
- 10 Salter, *Gresham*, p. 27.
- 11 Salter, *Gresham*, p. 14.
- 12 Salter, *Gresham*, p. 17.
- 13 Burgon, p. 72.
- 14 Burgon, p. 70.

Barren Metal

- 15 Goetz Freihorrrn Von Poelnitz, *Anton Fugger 1. Band*, (Tuebingen: J.C.B. Mohr, 1958), p. 91.
- 16 Burgon, p. 60.
- 17 Burgon, p. 65.
- 18 Salter, *Gresham*, p. 46.
- 19 Salter, *Gresham*, p. 68; Burgon, p. 116.
- 20 Burgon, p. 68.
- 21 Burgon, p. 78.
- 22 Burgon, p. 92.
- 23 Salter, *Gresham*, p. 57.
- 24 Salter, *Gresham*, pp. 58-9.
- 25 Burgon, p. 92.
- 26 Burgon, p. 97.
- 27 Burgon, p. 100
- 28 Salter, *Gresham*, p. 79.
- 29 Salter, *Gresham*, p. 78
- 30 de Roover, *Gresham*, p. 43.
- 31 Burgon, p. 94.
- 32 Burgon, p. 98.
- 33 Salter, *Gresham*, p. 60.

Chapter Thirty-Three

The Habsburg Bankruptcy

In January 1552, at around the time that Gresham went to Antwerp to borrow money from the Fuggers, Charles V, owner of every gold and silver mine in the New World which had been sending shipments regularly to Spain since 1530, ran out of money in the middle of the Schmalkaldic war against the southern German Protestant princes. At this point the Fuggers had been trying to get out of banking for six years. As early as the 20th of February 1546, the Welsers' representative, Christopher Peutinger, reported to Augsburg that "the Fugger were tired of Imperial loans; they had already let themselves in so deep that they had to wait a long time before they could get their money again."¹

When Maurice of Saxony captured Embach, Charles and his court, including Anton Fugger, fled to Villach. Once again the Fuggers pulled the Habsburg chestnuts out of the fire when Anton came up with the money Charles needed to prosecute his war against the Protestants. If he hadn't, the emperor would have had to agree to the demands proposed by the German princes in Passau on May 26, and southern Germany would most probably not have remained Catholic and most certainly not the bulwark of the Counter-Reformation which later became.²

This near catastrophe brought about a change in tone when financial negotiations resumed, but by this point the Habsburgs had become too big to fail. Anton, in spite of knowing the ultimate outcome of the folly of lending to princes, could not stop lending them money. What followed was another enormous loan to the emperor, this time for 400,000 ducats.³ Spanish revenues were now mortgaged up to 1557, and Anton was full of anxiety, largely because he was now lending money on his own account, and having to borrow on the Antwerp money market to keep the firm solvent. It was the same situation into which the Medici had fallen a century earlier, when they tried to cover the operating expenses at the English branch by borrowing in Brugges.

During the reign of Charles V, the Spanish crown borrowed roughly 28 million ducats. More than 10 million of that sum—or 36 percent of the entire credit—was provided by the bankers of Augsburg, and of that 10 million, 5.5 million came from the Fuggers and 4.2 million from the Welsers.⁴ Seven banking houses generated almost two-thirds of the loans granted between 1521 and 1555: the Fuggers, the Welsers, the Genoese firms Grimal-

di, Spinola, Gentile and Centurione, as well as the Antwerp firm Schetz.

During the run up to the Schmalkadic war of 1546-7, the crown borrowed another 500,000 Gulden. In 1546, at the highpoint of the war, the government of the Netherlands received 100,000 ducats from the Fuggers, who in January 1547 placed at the disposal of the emperor even larger sums in the form of Netherlands exchange. The Fuggers also guaranteed papal subsidies, which were earmarked for the Emperor's wars against the Protestants.⁵ The culmination of this series of loans came on May 28, 1552, when Anton Fugger advanced the emperor from his own account (that is, without the participation of his Nephew) the sum of 100,000 ducats and 300,000 Italian scudi, when he was hard-pressed by the revolt of the German princes.

The Fuggers tried to get back the money they had loaned to the Habsburgs by making claims on more and more of the Habsburgs' metal ores with concessions reaching farther and farther into the future. Beginning in the 1530s, the precious metals which the Spanish fleet imported from the New World and of which 20 percent as a rule belonged to the crown, took on ever greater significance.⁶ The Fuggers had leases on the mineral resources in Mastrazagos as well as mercury mines in Alamden. Mercury was used in the production of mirrors, the refining of gold and as a treatment for syphilis. The Fuggers' contacts with the Habsburgs also allowed them to ship Fustian and other products to Spain's colonies in the New World. But no matter how much they sold, the Fuggers couldn't produce enough cloth or get enough ore out of the ground to keep up with the compound interest accruing to the mammoth and ever growing Habsburg debt.

Endnotes

1 Richard Ehrenberg, *Capital and Finance in the Age of the Renaissance* (New York: Harcourt, Brace, & Co., 1928), p. 101.

2 Ehrenberg, p. 108.

3 Ibid.

4 Mark Haeberlein, *Die Fugger: Geschichte einer Augsburger Familie* (Stuttgart: Verlag W. Kohlhammer, 2006), p. 76.

5 Haeberlein, p. 77.

6 Haeberlein, p. 78.

Chapter Thirty-Four

Mary and the Looters

By 1552, the orgy of enclosure and rack-renting which followed the usurious speculation on looted church property led to a reaction. Parliament declared usury illegal, overturning a law which had been passed in 1547 stipulating the opposite. "All usury," said the Parliament in 1552, "is by the word of God prohibited, as a vice most odious and detestable, as in divers places of Holy Scripture is evident to be seen."¹ The law would have little effect if the English could, as Fresham was doing, borrow from the money markets at Antwerp and elsewhere on the continent. "In the Netherlands interest was allowed from 1540 onwards, as long as the rate did not exceed 12 percent and as long as both parties to the transaction were merchants."²

Once the precedent for money earning money had been established, it soon permeated all areas of economic life. The ease with which money ostensibly copulated and gave birth to more money through usury made the risks associated with commerce and manufacturing seem too high by comparison. Once "trading on borrowed capital was becoming the rule rather than the exception,"³ merchants began . . . to forsake occupying of cloths to occupy their money by Exchange."⁴ As St. Bernardine of Siena had predicted a century earlier, usury was destined to destroy both business and charity, by fostering greed and drawing money into what looked like risk-free investment. Belloc gets it wrong when he writes that: "It is important to remember that the amount of the interest has nothing to do with us being Usurious. One thousand percent on a successful mining venture is not usury. Three percent on a War Loan is."⁵ The Medieval Church never claimed that the purpose of a loan absolved the lender from the sin of usury, but Belloc gets it right when he says that: "Before the Reformation, the taking of interest on an unproductive loan—the levying of a tax on industry for the benefit of capital whether used or no—was done, but was done by subterfuge as a thing known to be evil. After the Reformation, it was the shirking of such interest which became wrong and dishonorable."⁶

King Edward died on July 6, 1553 at the age of 16 after having reigned, in name only, for seven years. Cobbett calls that reign:

seven of the most miserable and inglorious years that England had ever known. Fanaticism and roguery, hypocrisy and plunder divided the country between them. The people were wretched beyond all description. From the plenty of Catholic times, they had been reduced to general beggary, and then in order to repress this beggary, laws the most ferocious were passed to prevent even starving creatures from asking alms.⁷

Mary Tudor, the daughter of Catherine of Aragon and Henry's only legitimate child, then succeeded her half-brother to the throne and set about restoring the

Catholic Faith to England. Within six months of Edward's death, the Mass had been restored, to universal acclaim; heretics repented, and the poor were "no longer burned with red-hot irons and made slaves merely for asking alms, and they began to hope that England would be England again, and that hospitality and charity would return."⁸

But the issue of the stolen property remained unresolved. When the question of restoring papal supremacy came before Parliament, the looters knew that their ill-gotten plunder was at stake, and that the pope, if he regained his power in England, would demand its restitution. The queen as a result was faced with the unhappy prospect of resolving the property issue and plunging England into a civil war or not resolving it and thereby preserving the power base of the revolutionaries who had stolen the loot in the first place because "there was scarcely a nobleman, or gentleman of any note in her kingdom, who had not in one way or another, soiled his hands with the plunder."⁹ Mary was forced to compromise in this matter because "The Queen had not about her one single man of any eminence who had not, in some degree, departed from the straight path during one or the other or both of the two last reigns."¹⁰ Cobbett feels that Mary "would have done better to risk a civil war against the plunderers than assent to the Act of Parliament by which was secured to them the quiet possession of their plunder."¹¹

Mary didn't have to re-criminalize usury; the parliament itself had done that out of revulsion at the wave of greed and financial malfeasance which had swept England after the passage of the act of 1547. Even after Elizabeth ascended to the throne and set about undoing everything that Mary had done, the virgin queen waited 12 years "to revert to the act of 1547, and then only with reservations."¹²

Despite the general rejoicing at the return of the Mass, Mary soon discovered there could be no restoration of Catholicism without a resolution of the question of stolen property. Mary's advisers were divided on the issue. The pope felt that the property had to be restored. The Emperor, Charles V, whose son would marry Mary one year after her accession to the throne, felt that once the royal couple had produced an heir, the issue would resolve itself. The emperor was wrong because:

the plunder had been so immense, the plunderers were so numerous, they were so powerful and there were so few men of family of any account, who had not participated in one way or another, in deeds hostile to the Catholic church that the enterprise of the Queen was full of difficulty.¹³

When Mary became queen, Thomas Gresham, her Royal Agent in Antwerp, suddenly found himself out of a job. Gresham had been adept at manipulating the exchange rate, but the debt remained so formidable, that

Mary and the Looters

"interest, besydes the loss of the exchange amownteth unto . . . 40,000 pounds by yere."¹⁴

Before long, Gresham, to his surprise, was called back to be the queen's agent in Antwerp. "To what accident he owed his restoration to office in the last year of Mary's reign, we are not informed."¹⁵ Gresham was a protégé of the Cecil family and a member of the oligarchic clique which ran England whether their faction was in power or not. Gresham's recall as the agent of a devout Catholic monarch was a sign that capitalism had come to stay in England. The extravagance of Henry VIII had burdened England with debt, and in order to service that debt the queen needed to borrow funds in the money market in Antwerp at the going rates, which meant usury. The only man with the connections which could ensure favorable terms was Thomas Gresham. Without his efforts, Mary's government wouldn't have lasted six months. One year before Mary's accession to the throne, in the same year that the Edwardian legislation restricting usury had passed, Gresham secured a loan in Antwerp of 10,000 pounds at 14 percent per annum, in direct violation of the new law. The crown was now so deeply in debt that the queen was persuaded that the only hope for solvency lay in loans arranged by a financial wizard like Gresham. The Mass had returned for the moment, but capitalism had come to stay.

Endnotes

1 F.R.Salter, *Sir Thomas Gresham (1518-1579)*, (London: Leonard Parsons, 1925), p. 50.

2 Ibid.

3 Salter, *Gresham*, p. 51.

4 Ibid.

5 Hillaire Belloc, *How the Reformation Happened*, (New York: Robert M. McBride & Company, 1930), p. 267.

6 Ibid.

7 William Cobbett, *A History of the Protestant Reformation in England and Ireland*, (New York: P. J. Kenedy, 1895), p. 112.

8 Cobbett, *Reformation*, p. 119.

9 Cobbett, *Reformation*, p. 121.

10 Cobbett, *Reformation*, p. 122.

11 Cobbett, *Reformation*, p. 126.

12 Salter, *Gresham*, p. 52

13 Cobbett, *Reformation*, p. 118.

14 John Burgon, *The Life and Times of Sir Thomas Gresham*, (New York: Burt Franklin, no date), volume I, p. 116.

15 Burgon, p. 191.

Chapter Thirty-Five

The Fuggers Go Bankrupt

In February 1554 one of Anton Fugger's loans came due, and, to the shock and consternation of the financial world, the richest man in Europe had difficulty paying off a 30,000 florin note. Anton ordered his agent Oertel to raise money in Augsburg at any price "for my credit stands thereon. . . . I think as much on men's mockery as on the money itself."¹ Anton had been borrowing so that he could lend to the Emperor. Since all borrowers, no matter how illustrious their reputations, were equal when it came to haggling over interest rates, Anton often had to borrow at a higher rate than the rate at which he had agreed to lend. Ehrenberg sees this as "a threatening symptom of the coming ruin."² Anton like the emperor had placed all of his hopes in the gold and silver stores which were arriving from the mines of the new world, but not all the gold and silver in the new world could keep up with the inexorable demands of usury. Compound interest insured immeasurable wealth for the lender and doom for the borrower over the long haul. And it was this sense of impending doom which ironically (since he was above all else a money lender) haunted the last years of Anton's life.

Largely because of Anton's insistence, the Fugger bank received an infusion of much needed cash when a load of 200,000 silver ducats arrived in Antwerp at the end of 1553.³ But the magnitude of the Habsburg debt and the demands they placed on the Fuggers made this shipment and any other shipment nothing more than a drop in the bucket. In a sense government finance was still back in the Middle Ages, at a time when merchants had to travel to fairs in places like Champagne with bags of money and knights to guard them. The Italian merchants had discovered bills of exchange to thwart robbers, but governments and the banks still depended upon shipments of bags of money. These shipments were especially vulnerable to attack on the high seas because Spain and Portugal depended on obsolete nautical technology. The Spanish galleon was too slow and too high in the water to defend itself against the faster and more powerfully armed English ships. The failure of the Spanish armada would prove that conclusively in 1588. For the thirty years preceding that event, Spain bled gold and silver to pirates who had faster ships with more fire power.

It was most probably worries about the continual drain on Spanish shipping at the hands of English pirates which led Spain to arrange another marriage between their royal house and the English Tudors. The same geo-

political situation prevailed with Mary that had prevailed when her mother married Henry. As at the time of Catherine of Aragon's marriage to Henry 40 years earlier, France was the enemy of both England and Spain, but the Reformation had changed the situation in England. After the looters had taken power, England was the enemy of Spain because of ideological reasons that went deeper than mere national interests and boundaries.

By the middle of the 16th century, England had succeeded Germany as the headquarters of the Reformation, as well as the headquarters of messianic capitalism, which was the operating system of Protestantism. Even so, the death of the Protestant child king had opened a window of opportunity. A marriage between the Catholic Mary Tudor and Charles' son Philip, even if it needed a dispensation for consanguinity, meant the elimination of Spain's newest and deadliest rival and the elimination of English piracy, which was becoming one of the greatest drains on the wealth of the Spanish mines in the new world.

And so the marriage was arranged. On July 19, 1554 Philip landed at Southampton and was married to Mary within the week.⁴ Gresham, in a manner befitting the new amity between England and Spain, arrived in Spain full of hope that the marriage would open up new sources of cash. His correspondence indicates that his hopes were disappointed.

"For my part," Gresham wrote from Spain, "I am not able with my pen to set forth unto you the great scarcity that is now through all Spayne;" and one of the oldest banks in Seville having suspended payment in consequence of his operations, he adds with much concern, "I fere I shall be the occasione they should play all the banke-rowte [bankrupt]."⁵

At this point, what was later to become a common phenomenon began to emerge. The sovereign had to court the approval of the money markets. If the money markets were skeptical, no new venture could succeed. And in this instance the money markets were skeptical about the marriage's prospects of success. The queen had to produce an heir, and given her advanced age that seemed unlikely. If there were no Catholic heir, the de facto rulers of England, the usurers who had accumulated the wealth of the looters, were waiting in the wings with their own candidate, the next in line, Elizabeth. Gresham, who was this clique's agent and intelligencer, was the first to know that the alliance wasn't working out, and he figured this out by having his pulse on the money market which was so tight that "glad was that man that might be quit of five shillings."⁶

During 1555 and 1556, it had become painfully clear "how fearfully the war increased the debts of the Spanish Crown and the Netherlands."⁷ In 1555 Anton had to lend another 200,000 crowns to King Philip. The Fugger had been borrowing on the Antwerp bourse for 10 years now and it was going to prove fatal to them as it had to the Medici.⁸

The Fuggers Go Bankrupt

One year after Philip II married Mary Tudor, Philip's Father, Charles V abdicated as Holy Roman Emperor. The abdication took place in Brussels on October 25, 1555. Gresham witnessed it in person and dutifully reported on it to his backers in England. Charles V abdicated because he was incapable of paying his debts, which he then passed on to his son Philip, who found himself in an equally impossible situation. Philip reportedly said that he would have gladly fulfilled his financial obligations "with his own blood."⁹ Philip now found himself unable to pay his troops in the Netherlands, and his troops then tried to make up for lost pay by looting and pillaging, which turned the local population against the Spanish crown, which was now perceived as a tyrannical foreign occupier.

In the meantime, Anton kept throwing good money after bad. On February 1, 1566 Anton sent 400,000 ducats to Philip so that he could pay his troops and prevent further looting.¹⁰ As a result the Netherlands debt "rose to a crazy height,"¹¹ and interest rates rose accordingly. Philip was now forced to divert money earmarked for repayment of the Fugger debt to the Netherlands to pay the troops. As a result, the debt to the Fuggers rose even faster because of the higher interest rates that the borrowers had to pay to service it. The Spanish crown was drowning in a sea of unrepayable debt, most of which was owed to the Fuggers.

In 1557 the Spanish crown went bankrupt. In June 1557 King Philip II, issued a decree which transferred payments to his creditors from future crown income into royal annuities, which paid 5 percent per annum. With this state bankruptcy, the Spanish crown tried to release itself from its crushing interest payments. The crown then made matters ever worse for the Fuggers when they seized a shipment of silver from America that had already been earmarked for the Fuggers in order to pay their troops. As a result, the Fuggers realized a loss of 570,00 ducats.¹²

The Fuggers were the main casualty of the Spanish bankruptcy. Perhaps because of his advancing age, Anton had not kept up with the situation. As a result the Genoese bankers were able to get their money out before the crash, and Anton was left holding the bag. If the era of financial history which stretched from 1485-1560 is known as the Age of the Fugger, that age came to an end with the death of Anton Fugger in 1560.¹³ Strieder provides the best epitaph when he attributes the collapse of the Fugger financial empire to "the bottomless pit of Habsburg finance"¹⁴:

As time went on [Anton] was unable to stem the flood of loans to the Habsburgs, and unable also to compensate for the losses in that sphere by the expansion of trade and increased profits there. Anton Fugger would have preferred, even as early as the middle of the 16th century, to liquidate the company whose fate was in his hands. But that was impossible; the firm was too deeply involved in the banking business. In the hope of recovering former loans, new millions were tossed into the bottomless pit of Habsburg finance. Thus after the death of Anton in

1560, when the leadership of the firm had been taken over by his son Markus and other members of the family, the Fuggers lost the bulk of their wealth as a result of the bankruptcies of the national governments, especially the Spanish and the Dutch of the 16th and 17th centuries. What remained was chiefly that which through the clever family policy of Jakob Fugger the Rich, had been invested in land, and was thus immune to the vacillations of mercantile and financial fortune.¹⁵

Sensing that his own end and that of his firm was near, Anton Fugger added a codicil to his will on July 11, 1560 forbidding his successors from selling any of the family's estates. The man who had grown rich from usury and was ruined by the "overspeculation of the Antwerp bourse had concluded that the only secure source of wealth was ownership of the land, and it was to their status as landed gentry, conferred on them by the Habsburgs in gratitude for all the money they had lent them, that the Fugger family would eventually retire when the next generation failed to keep pace with the developing money market."¹⁶

Endnotes

1 Richard Ehrenberg, *Capital and Finance in the Age of the Renaissance* (New York: Harcourt, Brace, & Co., 1928), p. 110.

2 Ibid.

3 Ehrenberg, p. 111.

4 John Burgon, *The Life and Times of Sir Thomas Gresham*, (New York: Burt Franklin, no date), volume I, p. 153.

5 Burgon, p. 155.

6 Burgon, p. 167.

7 Ehrenberg, p. 112.

8 Ibid.

9 Ehrenberg, p. 113.

10 Ibid.

11 Ibid.

12 Mark Haeberlein, *Die Fugger: Geschichte einer Augsburger Familie*, (Stuttgart: Verlag W. Kohlhammer, 2006), p. 91.

13 Haeberlein, p. 93.

14 Jacob Strieder, *Jacob Fugger the Rich*, (New York: The Adelphi Company, 1931), p. 94.

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Chapter Thirty-Six

Gresham and Elizabeth

In November 1558, Mary Tudor died without producing an heir. This gave the Protestants the chance they had been waiting for. When Elizabeth, Henry's illegitimate daughter by Anne Boleyn, became queen in 1558, England had been Catholic for five years, but the property issue remained unresolved. The question of whether England was going to remain Catholic or not was resolved almost immediately when on Sunday, November 20, 1558 Sir William Cecil was appointed principal secretary of state.¹ "Elizabeth "trusted to Cecil the regulation of every thing connected with public affairs, from the very first moment she attained the honors of sovereignty."²

Once it became apparent that the Protestant clique was back in power, Gresham "lost no time in repairing to Hatfield"³ to offer his services to the virgin queen, who was happy to accept them, telling Gresham (in his words) that "yf I dyd her none other servize that I hadd one to King Edward her latte brother, and Quene Marye her latte systre, shed wold geve me as much land ever they both did: wyche two promyses, I wil insewre your honor, maid me a young man agayen and caussyd me to enter apon this great charge agayen with hart and courage. And thereupon her Majestie gave me her hand to kysse it; and I exseptid this great charge."⁴

By the time Elizabeth became queen, Gresham had proven himself indispensable because, as de Roover put it, "in 1559, there was not a single Englishman except Gresham who had any extensive knowledge of the intricacies of the exchange business or who had enough prestige to deal successfully with the continental bankers."⁵

As a result, Gresham was sent back to Antwerp "to assure the merchants of that town of the validity of all outstanding obligations, to buy ammunition, and to take up some additional sums for the repayment of which the city cheerfully gave their bonds."⁶ The money market needed reassurance because England's outstanding debt had grown to the unheard of sum of 226,910 pounds. The debt was now larger than the crown's annual revenues of 200,000 pounds, and as if that weren't bad enough, "The country was in an agitated condition, made worse by plague, famine and war."⁷

In addition to money needed to service the foreign held debt, the queen needed 300,000 pounds to build up the navy and an additional 178,000

for war with Scotland. As a result, the queen was reduced, like Timon of Athens, to the desperate remedy of selling crown lands to create revenue. Drastic measures were necessary, but again Gresham had no particular inspiration. Foreign loans, domestic loans, taxation, all had been pushed to their limits, and yet the debts remained. The best he could do was "to raise new loans and to obtain an extension of the old loans as they fell due."⁸ Gresham abolished the custom of purchasing jewels in order to get loans, but the best deal he could get on the money markets of Antwerp was 12 per cent per annum, from German bankers among whom Gresham mentions the Fuggers. For the repayment of the money thus borrowed at interest, the Queen promised to issue the necessary bonds sealed with her own seal and the seal of the City of London, a procedure which made all Londoners liable for the Queen's debts in case of default. The main concern after 1560 was to repay slowly the outstanding liabilities and to prevent the refunding operations from having an adverse effect upon the exchange

Gresham's reputation as a financial genius rests largely upon his association with "Gresham's Law," which "was not the invention of Sir Thomas Gresham but of Henry D. MacLeod, a 19th century economist," who "believed that he had discovered such a statement in Gresham's famous letter to Queen Elizabeth about the fall of the exchange."⁹ The famous astronomer Copernicus, among others, had "known that the excessive issue of base moneys drove good coins out of circulation because the latter were hoarded, carried abroad, or sent to the melting pot."¹⁰

In his letter to Queen Elizabeth I, Gresham explained how her father's debasement of the currency wrought havoc with England's economic situation:

Ytt may please your majesty to undertande, thatt the firsst occasion of the fall of the exchainge did growe by the Kinges majesty, your latt ffather, in abasinge his quoyne ffrom vi ounces fine to iii ounces fine. Weruppon the exchainge fell from xxvis. Viiiid to xiiis, ivd which was the occasion tattt all your fine goold was convayd ought of this your realm.¹¹

The main problem was the King's reliance on debt to finance his wars. Because of these wars, "the Kinges majestie ffell into greatt dept in Flanders. And ffor the payment thereof thay hade no other device butt paye itt by exchainge, and to carry over his ffine gowld ffor the payment of the same."¹²

This "greatt dept in Flanders" led the king to debase the currency, which in turn caused the flight of bullion and good coins out of the country. This in turn led to "a great and disconcerting rise of prices in the middle of the century could not be denied."¹³ But few people understood the connection. Whether the cause was understood or not, the effect was plain enough. Businessmen abroad were unwilling to accept English coins at face value. "This pen cannot write you," Gresham explained, the bad effect which a

debased coinage was having on English credit in Antwerp, where every merchant was glad to be "quit of an Englishman's bill."¹⁴

John Hales, not Gresham, discovered the cause of the rise of prices in the debasement of the coinage. Hales published his findings in a pamphlet which appeared in 1549 and which played a prominent role in the Enclosure commission of the same year. In *The Discourse of the Commonweal*, Hales showed that debasement caused farmers raise their prices, and "enclose more grounds," but that it gave the king no "more than a brief respite from his troubles: in fact, in the long run he was sure to lose by them."¹⁵

Foreign trade, needless to say, was seriously hindered by the fluctuations of the exchange, more and more to the detriment of England's commerce. The merchant from overseas kept demanding, naturally enough, an increasing amount of English coin to bridge the difference between its nominal and real position. At the same time, prices rose at home "in sympathy," causing the standard of living for the average citizen to plummet.¹⁶

Hale recognized that the main problem with the debasement was not so much increasing the amount of money in circulation, as having one man, the king, reap all of the value which accrued from the increase. Under Edward VI, counterfeiting had become a plague. The government's response was to issue more debased money.

On May 11, 1551, the master of the mint issued new testoons which had the same weight but one half of the silver content as the older coins.¹⁷ The new testoons were worse than any coins ever put out by Henry VIII. The entire issue was used to pay of the king's creditors. Thus, the Crown made a huge profit and eliminated its internal debt by the simple process of making two pennies out of one.¹⁸ "As touching the Mint," Hale wrote, "The King cannot have treasure when his subjects have none." The king "hath most of yearly revenues, and that certain so hath he most by this dearth and by the alteration especially of the coin."¹⁹

In 1560 Gresham persuaded the crown to recoin the debased currency. On September 27, 1560, a royal proclamation was issued devaluing the testoon.²⁰ November 8, 1560 an indenture was issued which restored the old standard of sterling money.²¹ The recoinage was completed within a year of the first proclamation, and her majesty congratulated herself on having won a victory over "this hideous monster of the base money."²² The government's net profit has been conservatively estimated at 40,000 pounds or thereabouts. The reform of the currency, mild as it was, involved drastic deflation.²³ Prices did not return to their previous levels creating more stress now because of deflation.²⁴

The recoinage restored the merchants' confidence in the government, but it did not improve the position of the pound sterling on the exchange market. On the contrary, the deflation was accompanied by a severe de-

pression, and prices soared even higher. Gresham was puzzled²⁵ because he failed to see that the silver of the New World was beginning to trickle into England and counteracting the good results of the recoinage.

Gresham was not a proponent of laissez faire economics ahead of his time. He was also not notable as a theoretician in spite of his posthumous fame as the author of Gresham's Law. De Roover claims that he "knew what to do under given circumstances and often took the right course, but he frequently justified his decisions by arguments that were either weak or fallacious."²⁶ His real genius lay in manipulating currency exchange in the interests of the English crown and this comes out in his letter of December 1558 to Queen Elizabeth on finance. Finance in this instance means a list of 24 tricks that can be used to manipulate the market.²⁷

Gresham advocated the creation of an equalization fund in order to support an exchange rate favorable to England. The only thing that prevented him from being more successful was lack of funds.²⁸ "The exchange," he told the queen,

is the cheffestr and richist tinge only above all other to restore your Majestie and your reallme to find gowld and sillvar, and is the meane that makes all forraigne comoditties and your comen comodites with all kind of virtualles good cheapp, and likewise keppe your fine gold and sillvar with in your reallme.²⁹

Gresham concluded his advice by telling the queen that it is imperative "to kepp [up] your credit and specially with your owne marchants, for it is thaye that must stand by youe att all eventes in your necessity."³⁰

Gresham's goal in life was practical; he was a theoretician *malgré lui*, and he often got lost in the complexities of economic exchange to the point where he had no theoretical explanation at all or one that was simply wrong. His goal was supporting the Protestant cause in England, which saw itself under Elizabeth as the *avant garde* of reformation in Europe. When the Protestant offensive failed to thwart the Duke of Parma in the Netherlands, England turned its eyes westward to the New World, where its technologically superior navy gave it a significant advantage over the Spaniards.

Gresham was not interested in moral concerns, certainly not when it came to issues like usury. "To a . . . capitalist like . . . Thomas Gresham, who managed the Government business in Antwerp, such sentiments were foolishness, and usurious interest appeared not bad morals but bad business."³¹ Gresham "attacked the prohibition on usury,"³² no doubt with the same persuasiveness with which he proposed his 24 tricks for manipulating the market to Queen Elizabeth. Since his protector and mentor Lord Burghley needed little persuading on this matter, the Act of 1552, which described usury as "a vyce most odyous and detestable, as in dyvers places of the holie Scripture it is evydent to be seen,"³³ was repealed and the old usury law enacted during the reign of Henry VIII, restored in its place.

The oligarchs who had grown rich from the looting of Church property in England were determined not only to hold on to that wealth, no matter what, as Mary Tudor learned to her chagrin, they were also determined to increase that wealth by making use of the most advanced financial techniques that Italian finance could provide. As a result, England, which was larger and more unified than any of the Italian city states could ever hope to be and better situated to take advantage of the new and growing Atlantic trade,

saw a steady growth of capitalism in textiles and mining, a great increase of foreign trade and an outburst of joint-stock enterprise in connection with it, the beginnings of something like deposit banking in the hands of the scriveners, and the growth, aided by the fall of Antwerp and the Government's own financial necessities, of a money market with an almost modern technique—speculation, futures and arbitrage transactions—in London.³⁴

To bring this about, England had to deal with the usury question. They did this in typically English fashion under the leadership of people like practical, "empirical" men like Gresham by simply claiming that "economics were one thing and ethics another."³⁵ It is no coincidence that Gresham's wife was the wife of Francis Bacon.³⁶ From this moment onward English science would become a circular ratification of the status quo which had been established with the looting of the monasteries. Sir Thomas Gresham, Francis Bacon, Sir Isaac Newton, Charles Darwin, Sir Karl Popper and other lesser lights would carry the tradition of British empiricism from the time of the looting to the present day. They shared a common belief that as Alexander Pope, who should have known better, put it, "Whatever is is right." By the time *The New Atlantis* appeared in print in 1621, "a significant revolution had taken place. 'Nature' had come to connote, not divine ordinance, but human appetites, and natural rights were invoked by the individualism of the age as a reason why self-interest should be given free play."³⁷

That revolution would find its theoretical justification when Locke rewrote the definition of property around the time of the Glorious Revolution and when Adam Smith applied the principles of Newtonian physics to economic life and turned the economy into a self-regulating mechanism which functioned without regard to the moral law, solely on the energy created by the opposition of instincts balancing themselves against each other and producing perfect, circular motion as a result, not unlike how the universe produced perfect motion through the balance of centripetal and centrifugal forces. Once the virgin queen felt secure on the throne, she began to consolidate the power of Protestant clique by removing them from the strictures of the law. As a result, "The exaction of interest ceased to be a criminal offence, provided that the rate did not exceed ten per cent."³⁸

Liberation from morality invariably takes place first in the practical realm, and Gresham's life was no exception to this rule. Freed from medieval notions of morality by the Protestantism which was nothing more than the rationalization of appetite, Gresham could act the part of the liberated capitalist before he or anyone else could come up with a justification for what he was doing. So, after taking up residence in Antwerp with the Schetz family in their beautiful hotel, "la maison d'Aix," on the Courte rue Nueve, Gresham began "acting in direct violation of the laws of the Low Countries."³⁹ Part of his duties as an agent of the crown required him to function as a smuggler, which necessitated deception, as when he filed reports using "the word velvet to denote gunpowder"⁴⁰ and "other terms, as silks, damasks, and satins in the same enigmatical manner."⁴¹

Smuggling meant involvement in bribery and corrupting customs officials, and "Gresham did not scruple to obtain the co-operation, suberviency or connivance of persons in office by a bribe or any other means within his power."⁴² That included bribing Sir Jasper Schetz, who received 500 crowns from the Home Office, "which he well deserves."⁴³ Burgon finds these actions "indefensible on the ground of morality" and regrets having to bring them up, but adds that "it would not be honest to suppress them."⁴⁴ Burgon ends up condoning Gresham's actions by an appeal to historical relativism, claiming that he "lived in an age when the general tone of morals, as well as of manners, was low."⁴⁵ Even so, Gresham outdid his peers in using the "delicate strategem" of corrupting customs officials in the Spanish Netherlands.⁴⁶

"Corrupting" is the word Gresham himself used when he wrote in 1560, "I have corrupted the chief searcher, whom is all my doer and [who] hath right honestly desired a worthy reward If it is discovered there is nothing short of death with the searcher, and with him who enters it at the custom house."⁴⁷ If "dyvers onnest [!] men [will be] undone thereby,"⁴⁸ then too bad. That was part of the price of doing business. The Reformation invented no new sins, but as Belloc pointed out in the case of usury, it did provide a rationalization for committing what was previously considered universally reprehensible. No matter how many high church officials were involved in usury, the Church could never bring herself to condone it in the way the English did under Gresham's leadership in 1571 when they revoked the usury statute of 1552.

Gresham's understanding of the intricacies of currency exchange made him one of the first practitioners of covert economic warfare. In addition to seeing that "a high exchange would cheapen all imported goods and encourage their consumption,"⁴⁹ Gresham also understood that by raising the exchange rate in favor of England it was also possible "to impoverish all foreign Princes secretly without violence."⁵⁰ The exchange thus ceased to be

a private matter and became a matter of national concern.

In addition to being a smuggler, Gresham was also a spy. His position in Antwerp, "the center of intelligence," allowed him to send back to Cecil in London "the freshest intelligence respecting the Pope, derived from Rome, Naples or Venice; respecting the Turk derived from Constantinople or Tripoli, and not least often, tidings of what was passing or rumored in Sweden, Denmark, Germany and France."⁵¹

Gresham's correspondence with Cecil reveals his role as an "intelligencer" when England was involved in covert economic warfare against the Holy Roman Empire. Gresham informed Cecil when Spanish galleons laden with silver and gold were due to arrive in Cadiz, as when he informed Cecil that on April 18, 1560 "8 ships from the Indias, ladyn with 4 millions of fine gold and silver" had just arrived in Cadiz, and that King Philip, whose share in that treasure was 1 million, was expecting four more ships, which Gresham hoped would end "in the Quene's Majestie's coffers or in the Exchquer."⁵²

More importantly, Gresham could also inform Cecil when galleons laden with specie to pay Spanish troops set sail for Antwerp, information that was of value to English pirates and the crown which supported them. Gresham understood that currency manipulation could only go so far in whittling away at the state debt. He knew that when the capitalist state is hopelessly in debt, there is only one way out: theft.

How was it possible that Philip, the owner of every gold and silver mine in the new world, had to declare bankruptcy, not once but on three separate occasions? There are three answers to this question. The first is war. It is impossible to finance war on credit, something the Habsburgs discovered in the 16th century and the Americans in the 20th. The second is the inexorable nature of compound interest. The third is piracy. The romantic aura surrounding English pirates like Drake, Hawkins, Frobisher has persisted to this day, as evidenced in films like the *Pirates of the Carribean*, but it obscures the fact that

These adventures had their commercial side; they were run on business lines and a 100 percent profit was looked on as almost contemptibly small. They were organized and financed by syndicates, in which the Queen herself joined more than once, and they served a political as well as an economic purpose inasmuch as they cause great annoyance to the Spaniards and yet could be officially disowned in case of need. These expeditions mostly belong to the "good" period after 1575, and the most famous of all is Drake's voyage of 1578-80; but they begin as systematic depredations during the years of crisis which we now have under review (1569-1574) and were an outlet for the enterprise at a time when trade depression was closing the more ordinary channels.⁵³

After piracy became a "systematized and semi-official"⁵⁴ instrument of British foreign policy, pirates like Drake and Hawkins became involved in

“more ambitious ventures against the harbors of South America and the treasure galleons which staggered across to Spain in convoys which were both unwieldy and insecure.”⁵⁵ Beginning in 1570, the Spaniards also had to deal with the Dutch “Sea Beggars,” who infested the shallow waters of the low countries sailing faster ships where Spanish galleons could not go. The Sea Beggars played a crucial role in the Dutch rebellion against Spain in 1570, and they would play an even more crucial role in the ultimate failure of the Spanish armada in 1588 by denying the Spanish navy the ability to transport the Duke of Parma’s troops to England. The Sea Beggars were “first cousins of the English privateers in race and their brothers, almost, in daring, skill and hatred of the Spaniards.”⁵⁶

In 1568 a large Spanish fleet entered the English Channel on its way from Cadiz to Antwerp. The Spanish ships bore a load of bullion which Philip had purchased from Genoese bankers which was to be sent to the Duke of Alba so that he could pay the Spanish troops stationed in the Netherlands.

This fleet was attacked by English privateers, who captured some of the vessels and drove the remainder to take refuge in English harbors. The arrival of the Spanish fleet in English ports set off a debate among members of Elizabeth’s government. There was, according to Salter, “strong feeling against meekly handing over the treasure to Alva”⁵⁷ because Spain stood for everything the ruling Protestant elite detested. This geopolitical fact had created the covert piracy operation in the first place.

Beyond that, the other famous English pirate Hawkins had just fought a battle with the Spaniards in the Bay of Biscay and lost all the treasure which he just stolen from other Spanish vessels as well as having many of his sailors captured by the enemy.⁵⁸ In the eyes of the capitalist elite in England, having stolen loot “hijacked” by its rightful owners was an intolerable affront as well as a *casus belli*. After⁵⁹ Gresham was drawn into the discussion, he “strongly urged that the treasure should be ‘taken care of,’” i.e., stolen. After “Those whose tender consciences reminded” Cecil and his counselors that England was “not actually at war with Spain,” they were reassured “that the treasure would not belong to Alva until it was actually handed over to him”; the Crown decided to steal the money and then negotiate with the Genoese about restitution afterwards. When Gresham argued that they could repay the Genoese bankers at leisure “by the old expedient of juggling with the exchange,” his arguments carried the day. The loot was carried off to the Tower of London, where 90,000 pounds was still lying around in 1569; the rest had already been “borrowed” for debt redemption.⁶⁰

This money was “borrowed” largely because of Gresham’s advice. On August 14, 1569, Gresham wrote to Cecil, “Seeing this money in the Tower

doth pertain to merchants (i.e, the Genoese) I would with the Queen's Majesty to put it to use of some profit; as to mint it in her own coin, whereby she shall be a gainer of 3,000 or 4,000 pounds, or enrich her realm with so much fine silver. And for the repayment thereof Her Majesty must pay it by way of exchange or otherwise, to her great fardell and profit. As also Her Majesty may take it up of the said merchants upon interest, upon the bonds accustomed, for a year or two; which I think they will be right glad of: and so with the said money Her Majesty may pay her debts both here and in Flanders to the great honor and credit of Her Majesty throughout all of Christendom."⁶¹

In response to the theft of the Genoese treasure, the Duke of Alba confiscated all goods belonging to English merchants in the Low Countries and in Spain. The net result was "a complete stoppage of commercial relations between England and Flanders."⁶² So after seizing a shipment of 50,000 pounds, the English ended up losing 200,000 pounds in confiscated goods. In addition, England was frozen out of the money markets which Gresham had spent decades cultivating, and that in turn plunged England into a depression when Gresham's attempts to raise money in Germany proved unsuccessful. By 1570 Gresham was complaining that he "never saw the scarcity of money as is there now in the City."⁶³

But in spite of the negative fallout, the capitalist precedent had been set. The surest way for one country to get out of the debt burden which usury made unrepayable was theft of another country's assets:

By the combined assistance of the subsidies and the treasure in the tower, Elizabeth was able to reduce considerably her burden of debt, although the Tower money meant that she had incurred a liability for the remoter future to the Genoese to whom it belonged.⁶⁴

Endnotes

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5 Raymond De Roover, *Gresham on Foreign Exchange*, (Cambridge, MA: Harvard University Press, 1949), p. 17.

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Barren Metal

- 10 De Roover, *Gresham*, p. 92.
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- 20 De Roover, *Gresham*, p. 62.
- 21 De Roover, *Gresham*, p. 63.
- 22 De Roover, *Gresham*, p. 65.
- 23 De Roover, *Gresham*, p. 66.
- 24 De Roover, *Gresham*, p. 67.
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- 27 De Roover, *Gresham*, p. 484.
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- 32 Tawney, *Religion*, p. 179
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- 34 Tawney, *Religion*, p. 176.
- 35 Tawney, *Religion*, p. 183.
- 36 See my discussion of Francis Bacon and Jewish science in the New Atlantis in *The Jewish Revolutionary Spirit and its Impact on World History*, pp. 473ff.
- 37 Tawney, *Religion*, p. 180.
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- 39 Burgon, p. 319
- 40 Burgon, p. 320.
- 41 Ibid.
- 42 Burgon, p. 366.
- 43 Ibid.
- 44 Ibid.
- 45 Ibid.
- 46 Burgon, p. 364.
- 47 Burgon, p. 322.
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- 49 De Roover, *Gresham*, p. 277.
- 50 De Roover, *Gresham*, p. 107
- 51 Burgon, p. 361.
- 52 Burgon, p. 291.
- 53 Salter, *Gresham*, p. 128
- 54 Ibid.
- 55 Ibid.
- 56 Ibid.
- 57 Salter, *Gresham*, p. 129.
- 58 Ibid.
- 59 Salter, *Gresham*, p. 130.
- 60 Salter, *Gresham*, pp. 129-30.
- 61 Salter, *Gresham*, p. 131.
- 62 Salter, *Gresham*, p. 132.
- 63 Ibid.
- 64 Salter, *Gresham*, p. 133.

Chapter Thirty-Seven

Gresham and Faust

Gresham's career reached its zenith in the period stretching from 1553 to 1564.¹ Because he had succeeded in liquidating most of the foreign debt through the strategies already mentioned, Gresham only had to borrow 98,484 pounds from 1563 to 1574. Gresham was fortunate because after 1568, the Antwerp money market was closed to the English crown, largely because of the seizure of the Genoese treasure, an action for which Gresham bore direct responsibility. Deprived of English commerce, Antwerp went into a period of decline which began with the bankruptcies which followed Spain defaulting on her loans in 1557 and ended 30 years later when Farnese put the city under siege and closed the Scheldt river with an engineering feat that ranked as one of the wonders of the world.

Gresham's son died in 1564. Since Gresham had never been on good terms with his wife, whom he married not for love but for the love of money, the death of his son proved more than usually unsettling, "leaving him apparently for the time without any very settled purpose for the ultimate disposal of the considerable wealth which he had even then acquired."²

Deprived of an heir, Gresham became a philanthropist. In December of 1568, the Royal Exchange came into being. The building housing it was modeled on the Antwerp Exchange, and Gresham paid for it at his own expense.³ Gresham then founded Gresham College, providing "his own residence in Bishopsgate as a building for the college, and left a suitable endowment to cover operating expenses and faculty salaries."⁴ Gresham could afford such conspicuous philanthropy because he was "known to be the wealthiest commoner in the land"⁵ and "rich almost beyond the dreams of avarice."⁶

By the spring of 1572 Gresham had hammered out the details for a restitution of the Spanish treasure which was satisfactory to the Genoese bankers, and after another three years prosperity of a sort returned to England. Trade improved and credit with it, but the main reason for the booming economy was piracy. Privateers like Drake and Hawkins continued to amass "tremendous sums," of which "the Queen took a liberal portion."⁷ There was so much gold on the seas during this period of history that one successful act of piracy could bring in a fortune. The voyage of Drake's ship *The Golden Hind*, which began two years before Gresham's death in 1577 and ended one year after he died, in 1580, alone netted the queen

250,000 pounds. Taking into account the fact that the Crown debt at the time of Elizabeth's death stood at 400,000 pounds, the staggering financial impact of piracy (in a positive sense for England's balance of payments and in a negative sense for Spain's) becomes clear. In spite of all of Gresham's manipulation, the Crown remained in debt during his years in office and continued in debt after he left office. If there was any improvement in the debt situation it was "due less to the increase in ordinary revenues, even when supplemented by aids from Parliament, than to quite exceptional receipts *such as that resulting from Drake's expedition*"⁸ (my emphasis).

"Capitalism all through Western Europe had clearly come to stay. It was, in a sense, the Renaissance in its economic aspect."⁹ The institutionalization of usury meant that the state was now going to insist on the fulfillment of usurious contracts of the sort that were constantly contested during the Middle Ages in places like the Holy Roman Empire. Gresham hoped to transfer of the debt from overseas creditors like the Fuggers to Englishman so that the looters could keep the money in the family. It would take over a century to work out the details, but Gresham's dream finally came true when the Whig oligarchs founded the Bank of England in 1696. Government debt was now wholly in English hands, but the antagonism which usury engendered did not cease as a result. Now the antagonism between English Protestant sovereigns and Catholic German bankers morphed into the antagonism between Whigs, who had access to money and profited from the state's involvement in usury to the tune of 8 percent per annum, and the Tories, the English successors of knights like Ulrich von Hutten, who were impoverished every bit as much as the Whigs were enriched by the new debt arrangement. The institutionalization of usury meant as well that the state would have to manage the unmanageable, which is to say the ever increasing amounts of money that were required to service an inexorably compounding increase in the national debt. Moderate interest of the sort charged by the *monti di pieta* in Italy seemed like a solution, and this was the solution that the national banks, beginning with the Bank of Amsterdam in 1609, began to adopt, but even a moderate rate of 5 percent applied to a revolving debt was to prove unworkable over the long haul, or even over the not so long haul, as the Fuggers had learned in their relationship with the Habsburgs.

After decades of faithful service to the crown, Gresham was presented with a bill for 10,000 pounds sterling when he left office.¹⁰ As a result, he engaged in trickery which one biographer found "disgraceful"¹¹ in order to get back the money he felt the Crown owed him. Gresham submitted a copy of the account which the exchequer had just refused to pay to the queen, who was "in a granting mood" probably because she was being entertained by Leicester at the time, and the queen approved it, most probably sight un-

seen, "in remembrance of faithful and paynefull service."¹² Gresham was in the hole (at least according to his own reckoning) because borrowing money as an agent of the crown involved him in a system which "inevitably encouraged bribery, corruption and other evils, since the officials were forced to pay themselves if they received no pay from the government."¹³ "Squabbling over pay and expenses as he left office"¹⁴ may not have been the most edifying end to a career in public service, but it was certainly typical of the nature of the age that gave birth to capitalism. It also brought the curtain down on his life in a way that was fitting.

Gresham died on November 21, 1579 at the age of 60. At the time of his death, "a considerable portion of his wealth consisted of gold chains."¹⁵ Unlike the Fuggers, Gresham did not pay to have Masses said for the repose of his soul, nor did he give generous alms to the poor when he died. However, he did arrange to have two hundred paupers, most probably the descendants of the peasants driven from the land by enclosure, fitted out with black gowns and paid a pittance to walk beside his otherwise unaccompanied corpse to its final resting place.

When Gresham died, the country was flourishing, both commercially and financially, but "Gresham himself worked no miracles and left the big problem of national expenditure unsolved."¹⁶ If Gresham's goal in life was to get the English crown out of debt, then he died a failure. When Elizabeth died she left behind a debt of 400,000 pounds.¹⁷ Gresham had been able "to produce palliatives, but not to effect an permanent cure for the inveterate disease of national indebtedness."¹⁸ In spite of his unearned reputation as the discoverer of Gresham's law, Gresham was not a theoretician. He wasn't an economist in any relevant sense of the term. He was a devotee of the Protestant party who conjured a bag of tricks to ensure quick financial gains for that party, which by the time he left office had become the party of capitalism and state-sponsored usury. "Gresham was trying continuously and persistently to enlist public support for an economic polity which was designed to break the power of the continental bankers and transform England from a debtor to a creditor nation."¹⁹ Gresham accepted the "new religion" with sincerity, "and with it what may be called the Protestant attitude toward the taking of interest" ²⁰ He was a partisan interested in short-term results.

The verdict on his career as royal agent in Antwerp is virtually unanimous: Gresham "had commonsense, shrewdness, great industry, and obviously a considerable talent for figures, but he was no genius."²¹ Gresham "was not a genius; he was not really a hero; he was certainly not a paragon of all the virtues; but he was a shrewd, level-headed Englishman, fit object of respect for a nation of shopkeepers."²² Gresham

provided no fresh suggestions. He made the most he could for the Crown out

of the intricacies of the foreign exchanges, and he levied toll, so to speak from the Staplers and Adventurers, but his main work, the work which occupied him month after month, was the unromantic and often heart-breaking task of interviewing creditors or potential creditors and by tact and persistence obtaining from them loans or renewals of loans, at the lowest terms possible.²³

In the end, the most significant contribution to the reduction of the state debt which Gresham saw as his main task when he took office came through piracy. Salter adverts to this when he claims that "the expenses of government had largely to be met out of foreign treasure (*however acquired*)"²⁴ (my emphasis). The numbers tell the story; prices rose 500 percent on Gresham's watch; wages, whether of skilled or unskilled labor, 200 percent.²⁵

Capitalism was theft of labor. It began with the theft of the stored labor which had accrued in England's monasteries over a period of 900 years. When looting led to usury and insupportable debt, capitalism turned to theft once again, and it was only piracy and the theft of the Spanish treasure which prevented the crown from defaulting on its loans. Conversely, the enormous amount of gold which the Spanish crown lost to English pirates might have prevented (or at least postponed) the three bankruptcies which Spain had to declare from 1557 to 1603.

By the time Gresham died, England had committed itself to capitalism, which meant usury, until the economy froze up under unsupportable debt and looting of foreign assets was necessary to get the economy going again. More importantly, England had committed itself to the principle of theft of labor. After driving the peasants from the land by enclosure and the creation of the great English proletariat, the English capitalists belatedly put them to work in the English factories which arose during the period of industrial capitalism beginning in the 18th century, but they made sure that the surplus value which the worker produced would go to the owner of the machinery and not the worker himself by committing England to a policy of chronically low, some would say, starvation wages.

Gresham was handicapped by a defective understanding of economics. This defective understanding was not unique to him; it characterized the age. It was known as mercantilism. Its prime principle was expressed by King Ferdinand when he told Christopher Columbus: "Get gold, humanely if possible, but at all hazards get gold."²⁶ This misunderstanding of the true source of wealth in an economy naturally led to piracy: "Piracy was elevated to a preferred branch of policy by Britain, France and Holland, each of which was seeking a piece of the action in America."²⁷ It also led to the rebirth of alchemy.

Sensing that capitalism was taking over England, Christopher Marlowe embarked on a critique of its spirit which included a series of counter-

revolutionary plays. *Tamurlane* attacked British imperialism; *Doctor Faustus* attacked magic and alchemy, and *The Jew of Malta* attacked usury, as traditionally practiced by the Jews and the demi-Jewish looters of Church property who were the powers behind the Elizabethan throne.

The rise of the Faust legend and the rapidity with which it entered European consciousness and remained there as a literary staple for the next four centuries demonstrates how Faust epitomized the modern world that came into being when capitalism supplanted the economic arrangements which the Church had established throughout Christendom during the Middle Ages.

The Faust story, which is based on a real character born in 1491,²⁸ is in many ways a tale about the effect that the arrival of the money-based economy had on the labor-based medieval economy of the Holy Roman Empire. After the spirit tells Faust that if he fulfills his contract with the devil, he will get whatever his heart desires and craves,²⁹ a dense fog fills his chamber, so dense that Faust could see nothing. The disappearance of the fog is followed by an epiphany. The brave new world of capitalism has arrived in the form of the two sacks which Faust sees sitting in his room, "one full of gold and the other full of silver."³⁰ The two sacks symbolize the arrival of the money-based economy of the modern era.

Money is the magic medium which allows Faust to satisfy all of his base desires. Money, in fact, is magic; unlike food, drink, and even sex, which can only satisfy one appetite at time, money is infinite in its capacity; money can fulfill every desire. Money and magic are one and the same thing.

Money also comes into being by magic. When Faust turns coal into silver and gold he is only doing the same sort of thing that the Fuggers had been doing for decades.³¹ When a Jew lends Faust money, Faust saws off his own leg (or at least seems to) and offers it as a pawn. The Jew, blinded by the illusion Faust has created, takes the pawn, and Faust makes off with his money.³² Money buys women (or at least prostitutes); and women insure forgetfulness. Whenever Faust's thought turned to God, the devil disguises himself as a beautiful woman and engages in all sorts of depraved activities with Faust until he forgets all about the word of God and takes up his evil intention with renewed determination.³³

Money is magic, but the magic has a price. Faust has to pledge his soul in order to get it. In this, the contract which Faust makes with the devil is similar to usury. As soon as the borrower signs the contract, he gets magic money, i.e., without working for it. Money, in turn, allows him to fulfill his desires in a way that ordinary objects like food and drink do not. Everything goes along swimmingly until the term of the contract runs out. This corresponds to the other end of the usury cycle, or what Irving Fisher

would call the debt/deflation cycle, when it becomes apparent that the borrower has no way to pay back what he owes.

At this point he has to surrender his highest value, namely, his soul. Money did nothing but create illusions because, as borrowers, especially princes, inevitably find out when it becomes impossible to repay a loan, money is itself an illusion. The mercantilists of Faust's time thought that money was gold, but blinded by the cursed lust they failed to see that money as a medium of exchange can be created out of thin air. Every sovereign did this when he debased his currency. The emperor of China did it when he created a paper currency based on a gold reserve, which did not circulate.³⁴ Unless it is grounded in something real, like the productivity of human labor, money tends to disappear as quickly and as magically as it appeared. The moral of the Faust story is to remain focused on reality. To a German living at the end of the 16th century, reality was grounded in spiritual reality rather than material illusions, like money which disappears as quickly and as magically as it appeared.³⁵ And so the narrator of the *Faustbuch* tells his readers that: "Every Christian needs to learn that he should fear God and flee magic, conjuring and other works of the devil and not to invite the devil to be his guest or offer him shelter as Faust did." The *Faustbuch* mentions the Habsburg Kaiser Rudolf II, a notorious practitioner of magic who was emperor when his cousin Philip II was king of Spain. Rudolf II was clearly a faustian figure because of his interest in magic, an interest which John Dee tried to exploit in the interest of the English looters.³⁶ But his cousin Philip was also like Faust because he was unable to pay back the money he had borrowed when the bill came due.

In 1572 Philip II asked the Fugger family for a loan of one million ducats. Philip urgently needed to send money to the Netherlands to supply his "starving and mutinous troops,"³⁷ but he was doubly crippled because, stung by the predations of the English pirates, especially their confiscation of the Genoese treasure in 1568, it was too dangerous to send large sums in cash. Philip needed the Fuggers because he could depend on them to come up with this kind of cash, but also because "there was no solvent business house except the Fugger who could do this through bills."³⁸

Unfortunately, the Fuggers could only supply stop-gap loans in the range of 100, to 150,000 ducats, most of which immediately returned to the firm to cover past loans. As a result, Spain declared bankruptcy for the second time in 1575. In 1576, Philip's troops in the Netherlands, still unpaid, mutinied and tried to make up in looting what they had been deprived of in pay. Eventually, Antwerp would succumb to the same pressure, when it was looted by Spanish troops looking for plunder in lieu of pay.

In 1604, the Spanish debt amounted to 5.75 million ducats, 3.25 million of which were owed to the Fuggers. In 1607 Spain declared bankruptcy for

the third time. The Fuggers had to borrow money themselves to make up for the shortfalls which the Habsburgs' nonpayment was causing. Interest payments on that debt were costing the Fuggers 200,000 ducats a year.

The Fuggers discovered that they had more and more in common with Faust. Like Faust, they were discovering that the money which they had created as if by magic was now disappearing just as magically as it had appeared. "In the beginning of the year 1630 Octavio Centurione dared to say of the Fugger that [like Faust's gold and silver] their supposed riches were pure imagination."³⁹

By the middle of the 17th century, the Fuggers had poured 8 million Rhenish gulden into the coffers of the Habsburgs, and it was clear that none of it was coming back. Faust's pact with the devil lasted 24 years; the Fuggers' pact with usury lasted four times that long, but by the end of the century which began with the Fuggers getting into mining and banking, nothing was left of their fortune other than the land they had wrung from the Habsburgs as a reward for their services.

By focusing on obtaining gold, mercantilism led to a rebirth of alchemy just as inexorably as it led to piracy as the solution to England's debt problem. A number of magicians followed in Faust's wake, all claiming the ability to turn base metals into gold. Trithemius was born in 1462, a generation before Faust in the village of Trittheim, which gave him his name.⁴⁰ Trithemius wrote several books on the occult sciences, including one on alchemy and one on the government of the world by angels. It was that book, the *Steganographia*, eventually translated into English by William Lilly in 1647, which became the great object of John Dee's search in his attempt to resurrect Cabala and put it to use in service of Walsingham's intelligence operation. "Trithemius is said to be the first writer who makes mention of the wonderful story of the devil and Dr. Faustus, the truth of which he firmly believed."⁴¹

Cornelius Agrippa, Trithemius's successor as chief magus of the occult sciences, was born in Cologne in 1486. By the time he was 20 years old, he was reputed to have discovered the philosopher's stone and "could turn iron into gold by his mere word."⁴² After being invited to Paris by the adepts there who hoped to use him in their own researches into the philosopher's stone, Agrippa settled in London "where he taught Hebrew and cast nativities."⁴³ In spite of his ability to turn iron into gold "by his mere word," Agrippa died in poverty in 1534 at the age of 48. His poverty may have come about because "the gold which he paid to the traders with whom he dealt always looked remarkably bright, but invariably turned into pieces of slate and stone in the course of 24 hours."⁴⁴ Here again we have a cryptic reference to the usury cycle, whose mysteries were just beginning to emerge into the consciousness of Europe, primarily through the Faust legend's resur-

rection of the alchemical tradition.

Agrippa ended up becoming a legend in his own mind, the common fate of the alchemical brotherhood. His successor was a man with the unwieldy name of Aureolus Theophrastus Bombastes Paracelsus Hohenheim, which he mercifully shortened to Paracelsus, not out of consideration for those who had to pronounce it but because he considered himself the equal of the greatest physician of all time. Hohenheim was born at Einsiedeln, home of the famous Benedictine monastery not far from Zurich in 1493. Paracelsus was the first to prescribe mercury as a cure for syphilis, insuring for centuries to come that those afflicted with that disease would have mercury poisoning and the insanity that it caused as a distraction from the disease which mercury was supposed to cure. Paracelsus was an ardent foe of the Fugger family, because he felt that their promotion of guayac wood as a cure for syphilis cast aspersions on his medical expertise.

Paracelsus was fond of referring to himself as "the monarch of medicine," especially when he was drunk, which was not infrequently. As Mackay says, "If a sober prophet has little honor in his own country, a drunken one has still less."⁴⁵ Like Agrippa, Paracelsus soon realized that the real money was to be made (in just about every sense of the term) in coining (or debasing the coinage). Mercury may not have cured syphilis but it did have magical properties when mixed with gold and silver. On Easter Sunday 1550, Paracelsus put "some common quicksilver" into "a small crucible on the fire," and in less than an hour, it was "converted into very good gold," for the next 24 hours at any rate.⁴⁶

John Dee, who was born in 1527, brought cabbalistic alchemy to England, where he put it in the service of Elizabeth's spymaster Walsingham. He and his famulus Edward Kelley lived high on the hog for a while in Bohemia, exploiting the Rozemberk family and others "who had money to throw away upon the experiment to find the philosopher's stone."⁴⁷

After his death, the Rosicrucians carried on the tradition of magic which Dee brought to England. One of their seminal documents was Francis Bacon's *New Atlantis*. Another was the *Chemical Wedding of Christian Rosencreutz*. In France they were known as the Invisibles, and Rene Descartes was suspected of being one of their members. "No sooner were their doctrines promulgated, than all the visionaries, Paracelsists, and alchemists flocked around their standard, and vaunted Rosencreutz as the new regenerator of the human race."⁴⁸ When Michael Mayer "drew up a report of the tenets and ordinances of the new fraternity which was published at Cologne in the year 1615" he seemed to evoke on the Faust legend as deriving from the common man's understanding (or misunderstanding) of how the Fuggers came by their money when he wrote that the Rosicrucian alchemists would provide the Emperor "with more gold, their treasures be-

ing inexhaustible, than the King of Spain had ever drawn from the golden regions of Eastern and Western Ind."⁴⁹ By the time Michael Meyer wrote his report, the Faust legend had combined with the Rosicrucian conspiracy in the popular mind, leading the common man to feel that:

It was the devil who gave them power to transport themselves for one end of the world to the other with the rapidity of thought; to speak all languages; to have their purses always full of money, however much they might spend; to be invisible and penetrate into the most secret places . . . and to be able to tell the past and future.⁵⁰

It was also said "that many persons found large heaps of gold in their houses without knowing from whence they came. All Paris was in alarm. No man thought himself secure of his goods, no maiden of her virginity, or wife of her chastity, while these Rosicrucians were abroad."⁵¹

There is a certain irony in the claim that Descartes was a member of the Invisibles because Descartes brought about the rout of the alchemical/rosicrucian tradition on the continent. When Father Mersenne came to Descartes' aid, he also launched an attack on the Rosicrucians, who now found their chief defender in an Englishman by the name of Robert Fludd.

Fludd was born in 1574 at Milgate in Kent and was the son of Sir Thomas Fludd, who was Treasurer of War to Queen Elizabeth. At 25, Fludd moved to the continent, where he became a disciple of Paracelsus. In 1605 he returned to England and enrolled at the University of Oxford, which granted him the degree of Doctor of Medicine. At this point, Fludd latinized his name to Robertus a Fluctibus, and announced the imminent discovery of the philosopher's stone, the water of life and the universal alkahest.⁵² Fludd also "maintained that there were but two principles of all things—which were condensation, the boreal or northern virtue; and rarefaction the southern or austral virtue."⁵³ Mersenne exposed the absurdity of Fludd's position in an exchange of letters which subsequently became famous in the history of science.

We are told that the period of nascent capitalism was one of increasing secularization of intellectual life, a time when "new ideas about economics, based on material and institutional religion premises, found expression in other literary media," when in fact the opposite was the case. After Fludd's defeat at the hands of Mersenne, alchemy retreated to England to lick its wounds in the Invisible College, where it was promoted by people like the father of modern chemistry, Robert Boyle, and most famously by his protégé Isaac Newton. Many claim that alchemy became chemistry; fewer are willing to claim that it became proto-economics, or as it was called at the time, political arithmetic.

Auri sacri fames, the accursed lust for gold, led to intellectual impoverishment and prevented the emergence of a true science of economics.

The pieties of reformers like Luther and Calvin, who dismissed the careful distinctions of the Middle Ages as so many pointless disputations on how many angels could dance of the head of a pin, only emboldened the looting aristocracy, whose consciences had been “liberated” from the moral law by the reformers’ insistence that faith alone was necessary for salvation.

Because John Calvin (1509-1564) did not feel himself bound by Church law and the 500-year-old tradition of viewing usury as “whatever is added to the principal,” he felt that he could “make a fresh start”⁵⁴ by “denying the absolute divine prohibition of all usury” and by “suggesting that money be identified with the goods that it buys.”⁵⁵ The “detailed analysis of the scholastics” was abandoned in favor of a new application of the Golden Rule. Calvin had nothing but contempt for the interest titles allowed by the scholastics, claiming that “there is no kind of usury which this specious title may not cloak.”⁵⁶ Usury was now sinful only if it “hurt one’s neighbor.”⁵⁷ This abandonment of 500 years of thought led inevitably to the conclusion that the looting aristocracy was so avid to hear, namely, “let each believer’s conscience be his guide.”⁵⁸

By shifting the focus of the discussion to the subjective state of the borrower and lender, Calvin pretended the inexorable and pernicious effects of compound interest out of existence. He also redefined the nature of money. Unlike Dante, Calvin believed that money could copulate and reproduce itself. Calvin had nothing but contempt for Aristotle’s claim that money was sterile. Money, Calvin claimed, was “as fruitful as a house or as many other kinds of merchandise. When money buys a field, money then bears money.”⁵⁹ The moment that money becomes an agent, then true source of economic exchange in the human will becomes obscured, and economics starts heading off in the direction of physics, as was the case during the age of Newton, or biology as was the case in the age of Malthus and Darwin.

While Calvin had been reluctant to admit usury of any kind, and Molinaeus had at least forbidden it in loans to the poor, Salmasius (Claude Saumaise, 1588-1653) enters a ringing defense of the most brazen of all usurers, the licensed, public moneylenders who drew their profits from the poor.⁶⁰ Noonan claims that “In Salmasius, all religious scruple is brushed aside, and the secular law alone sets a limit to profits.”⁶¹

At a certain point in the period now under discussion, alchemy and usury became respectable, and the English were responsible for both transformations. This change took place when alchemy became known as “science,” when Newton published his *Principia* toward the end of the 17th century. Alchemy became respectable in the realm of economics when it became known as political arithmetic.

By relying on the 24 techniques for manipulating the market which he mentioned to Queen Elizabeth, Gresham brought about the rise of political

arithmetic. Gresham's pragmatic approach to manipulating currency was the opposite of economic science; it was chrematistics of the basest and crudest sort. But the capitalists used it as their replacement for the science which was struggling to be born or, better, struggling to survive in its nascent form. De Roover claims that "the work of the early mercantilists is far inferior to that of the early and late Schoolmen, who had consistent price and distribution theories based on commutative and distributive justice and who considered rightly that the central problem in economics was one of scarcity."⁶² Early mercantilists like Gresham were so avid for practical results—i.e., more gold and less debt—and so interested in the chrematistic techniques that could bring this about, i.e., manipulating exchange rates, that they were

never able to integrate their findings into a comprehensive theory based on the mutual dependence of all variables: 1) the balance of trade, 2) exchange rates, 3) relative price levels, and 4) specie flows. . . . Not a single one of them approached the foreign exchange problem with an unbiased mind, for each author of a plan had an ax to grind. Gresham's Memorandum is a tract in defense of an economic policy dictated by the necessities of government finance.⁶³

Any system born out of greed, which is to say, passion not controlled by reason, is blind to certain fundamental realities. Political arithmetic was blind to the source of value in human labor. The mercantilists, as a result, "overemphasized foreign trade as the main source of national prosperity, to the neglect of agriculture and manufactures."⁶⁴ The main problem was philosophical.

Mercantilism, unlike scholastic economics, was not an integral part of a philosophical system which embraced the universe. Instead, the early mercantilists devoted their attention to particular problems relating to currency, foreign exchange, and international trade, which lent themselves especially well to analysis in terms of mechanical causation by the impersonal forces of the money market.⁶⁵

Because mercantilism lacked a philosophical foundation, it was congenial to the English mind, which fancied that it "framed no hypotheses," and was totally empirical in its orientation. Political arithmetic, as a result, "drew its inspiration not from religion or morals, but from mathematics and physics."⁶⁶ The rise of Political Arithmetic meant that economics was going to be viewed less and less as a discipline associated with moral philosophy and practical reason and more and more with mathematics and physics.

Gresham helped bring about the birth of the new order wherein physics had hegemony over moral philosophy by arguing for the overthrow of the Usury Law of 1552, demonstrating that "the [fundamental economic] question had now become one of expediency rather than of the moral

law.⁶⁷ Moral considerations were laid aside as obsolete and replaced by impersonal forces whose trajectories resembled the paths of planets in the firmament and could be calculated with mathematical precision. For the next 200 years, the new science of Political Arithmetic would assert

at first with hesitation and then with confidence, that no moral rule beyond the letter of the law exists. Influenced in its method by the contemporary progress of mathematics and economics, it handles economic phenomena, not as a casuist, concerned to distinguish right from wrong, but as a scientist, applying a new calculus to impersonal economic forces.⁶⁸

Cobbett's claim that "The Protestant Religion . . . was established by plunder,"⁶⁹ is a *fortiori* true of the nascent science of political arithmetic. The real cause of the shift from economics as a moral science to economics as pseudo-physics was guilt. Great fortunes had been made by theft, and the possessors of those ill-gotten gains did not want to be reminded of how they had gotten them or who had suffered as a result. The new magnates were interested in increasing their wealth. This brought about a redefinition of the nature of economic activity, and when that redefinition became accepted by a large number of significant players, a new age, the modern age, was born. Since the moderns, following the example of Calvin, felt that money could copulate, money, via state-sponsored usury, became the prime agent in the modern capitalist economy. The Protestant rejection of Aristotle's contention that money was sterile automatically brought about the dethronement of human labor as the source of economic value. The vices of capitalism flowed from this transvaluation of the nature of money from something that was sterile to something that could copulate, in Shylock's words, faster than Laban's ewes and rams. Not only the taking of interest for a loan, but the raising of prices by a monopolist, the beating down of prices by a keen bargainer, the rack-renting of land by a landlord, the sub-letting of land by a tenant at a rent higher than he himself paid, the cutting of wages and the payment of wages in truck, the refusal of discount to a tardy debtor, the insistence on an unreasonably good security for a loan, the excessive profits of a middleman—all these had been denounced as usury in the very practical 13th century manual of St. Raymond.⁷⁰ But now they were considered virtuous.

From the time Gresham successfully lobbied for the repeal of the Usury Law of 1552, England was at war with Germany, because Germany, known at that time as the Holy Roman Empire, was nothing more than the political and economic expression of the teaching of the Catholic Church. The acceptance of Calvin's notion of money as fertile "injected a virus of hitherto unsuspected potency"⁷¹ into Christendom. Calvin's notion that money was fertile became "at once a stimulant to feverish enterprise and an acid dissolving all customary relationships."⁷² Once that notion found widespread

acceptance in England in the wake of the looting of church property:

Lords, no longer petty sovereigns, but astute businessmen were leasing their demesnes to capitalist farmers, quick to grasp the profits to be won by sheep-grazing, and eager to clear away the network of communal restrictions which impeded its extension. . . . The aim of the great landowner was no longer to hold at his call an army of retainers, but to exploit his estates as a judicious investment.⁷³

By the end of the 16th century, all traditional landmarks seemed one by one to be submerged.⁷⁴ The truth that any bargain, in which one party obviously gained more advantage than the other, and used his power to the full, was regarded as usurious disappeared from the lexicon of economic behavior and was replaced by increasingly arcane calculation.

Endnotes

- 1 Raymond De Roover, *Gresham on Foreign Exchange*, (Cambridge, MA: Harvard University Press, 1949), p. 25
- 2 F.R. Salter, *Sir Thomas Gresham (1518-1579)*, (London: Leonard Parsons, 1925), p. 105.
- 3 Salter, *Gresham*, p. 108.
- 4 De Roover, *Gresham*, p. 30.
- 5 Salter, *Gresham*, p. 115.
- 6 Salter, *Gresham*, p.118.
- 7 Salter, *Gresham*, p. 133.
- 8 Salter, *Gresham*, p. 135
- 9 Salter, *Gresham*, p. 154.
- 10 De Roover, *Gresham*, p. 22.
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- 16 Salter, *Gresham*, p. 134.
- 17 Salter, *Gresham*, p. 122.
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- 19 DeRoover, *Gresham*, p. 278.
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- 26 Peter L. Bernstein, *The Power of Gold: The History of an Obsession* (New York: John Wiley & Sons, 2000), p. 121.
- 27 Bernstein, p. 137.
- 28 Peter Philipp Riedl, *Historia von D. Johann Fausti, kritische Ausgabe der jüngerer Version von 1589*, (Berlin: Weidler Buchverlag, 2006), p. 11.
- 29 Riedl, p. 17, my translation: Vnd so er solch Puncten halten wuerde/ sollte er alles das haben was seine Herze gelueste vnd begerte /
- 30 Riedl, p. 21, Bald geschichts / das ein grosser Nebel in der Stuben wird / das Doct. Faustus fuer dem Nabel nicht sehen kundte / so bald aber der Nebel vergienge / lagen for jhm zween Secke / der eine war Goldt vnd der ander Silber.
- 31 Riedl, 2, Als er un den Schatz grub / fand er nichts als Kolen darinnen. Hoeret vnnd sahe auch darneben viel Gespenste. Also bracht D. Fauste die Kolen zu Haus / di als bald zu Silber vnd Gold verwandelt worden / welches / wi sien Famulus davon gemeldet hat / in etliche tausent Gueldn werth geschätzt ist worden.
- 32 Riedl, p. 71 D. Faustus nimpt eine Saegen / vnd schneidet seinen Fuss damit abe/ gibt jhn den Juden (es war aber lauter Verblendung) mit der condition: So bald er zur Gelte kem/ jhm zubezalen/ das er jhm sein Schenckel wider zustellen sollte.
- 33 Riedl, pp. 35-6: Zu dem, wenn er allein war / vnnd dme Wort Gottes nachdencken wollte / schmuecket sich der Teuffel in Gestalt einer schoenen Frawen zu jhme / haelset jhn / vnnd trieb mit jhm alle Vnzucht / also / das er des Goettlichen Worts bald vergas / vnnd in Wind schluge/ vennd in seinem boesen Fuerhaben fortfuhre.
- 34 Bernstein, pp. 158ff.
- 35 Riedl, p. 113 Also endet sich die gantze warhafftige Historia vnd Zuaberey Dr. Fausti/ daraus jeder Christ zu lernen . . . Gott zu fuerchten/ Zauberey / Beschwörung vnd andere Teuffelswerck zufiehen . . . vnd den Teuffel nit zu Gast zu laden / noch jm Raum zu geben / wie Faustus gethan hat.
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- 66 R.H. Tawney, *Religion and the Rise of Capitalism: a Historical Study*. (Holland Memorial Lectures, 1922. Gloucester, MA: Peter Smith, 1962), p. 189.
- 67 Salter, *Gresham*, p. 147
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Chapter Thirty-Eight

Hobbes and the Rise of Science

As of this point in time, there was no difference between magic and science. Scholasticism had been discredited by the humanists under the blows of Ulrich von Hutten, but the only thing that had arisen to take the place of scholasticism was magic, in particular Jewish magic of the sort promoted on the continent by Agrippa and in England by John Dee. In order to become a credible substitute for Scholasticism, alchemy had to become "science." One of the key figures who brought about the emergence of "scientific" thought, especially scientific politics and economics, from the merger of humanism and alchemist mumbo-jumbo was Thomas Hobbes, who was born on April 5, 1588, at around the same time that Marlowe's *Doctor Faustus* was first being performed on stage.

Thomas Hobbes was the son of another Thomas Hobbes, who was the curate at the parish of Brokenborough.¹ Hobbes' father was: "A man of little education who could barely read the church services, he played cards all night, fell asleep during the sermon, became notorious for drunken and quarrelsome behavior and eventually fled to London in 1604 after picking a fight with another local clergyman. It is not known whether his famous son ever saw him again."² Fortunately, the younger Hobbes found a teacher who recognized his talent and arranged for him to attend Magdalen Hall, Oxford, where he received his bachelor's degree in 1608. After graduation from Oxford, Hobbes became a tutor to the family of William Cavendish, a Derbyshire landowner who became the first Earl of Devonshire in 1618. After serving as a tutor and companion to Cavendish's son, the future second earl, Hobbes became his secretary.³

Hobbes began his intellectual career as a humanist, but during the 1630s, largely because of the experiments he conducted in the natural sciences at Welbeck Abbey in Nottinghamshire with the Earl of Devonshire's cousins, the Earl of Newcastle and his younger brother Sir Charles Cavendish, Hobbes began thinking more and more along the lines of the new science of the 17th century.⁴ By 1636 Hobbes felt confident enough to write to Newcastle on a variety of scientific themes, offering his opinions on topics like local motion and its relation to heat, as well as on Galileo's theory of color and light and the nature of scientific proof.⁵

Hobbes' experiments in physics led him to believe "that there is only one thing in the whole world that is real, although it is falsified in a number of ways," and that is motion, "which is why anyone who wishes to under-

stand physics must first of all devote themselves wholeheartedly to studying what make motion possible.”⁷⁶

As the political situation in England worsened, Hobbes began to fear for his safety, and as a result he moved to France, where he tried to apply the scientific principles he had learned from studying physics to politics and economics. The result was *Elementorum Philosophiae Sectio Tertia De Cive*, which appeared in 1642. In *De Cive*, Hobbes set out to “overturn the central tenets of Renaissance civil science and replace them with a new conception of scientia civilis founded on authentically scientific premises.”⁷⁷

Hobbes wrote the same book about the nature of society and sovereignty three times. Each book had the same set of villains. “His particular bugbears among the scholastics are Peter Lombard, Thomas Aquinas, and John Duns Scotus as well as Francisco Suarez, the political ideologist of the School of Salamanca.” Aquinas is singled out because he “set up the kingdom of Aristotle.”⁷⁸ Hobbes introduced “the libertarian economic principles of the Roman law”⁷⁹ into English thought, which the Scholastics had been fighting against on the continent since Cosimo de Medici had introduced them in Florence. If, as Pesch claims “The absolute police state of the early modern era represented a relapse back toward the ancient state of the Roman imperial era,”⁸⁰ then Hobbes was responsible for its theoretical justification in England. If the Elizabethan police state “brought with it an intolerable excess of state sovereignty, and there was virtually no recognition of any legal limits to state dominion over its citizens,” then Hobbes was its theoretician. And if, as Pesch claims, “The excess of regulation gave rise to the desire for greater freedom, and it eventually put an end to the police state,” then Hobbes was also a herald of laissez-faire economics as well. Hobbes was also the herald of legal positivism. As Adam Smith pointed out, “Mr. Hobbes” felt that “the will of the magistrate” was “the only proper rule of conduct.”⁸¹ Both views found expression in Hobbes’ concept of the natural law, which amounts to a “negative laissez aller doctrine”⁸² when he writes that:

Natural law commands that we seek peace in all things that we do, but in commonwealth, the civil law takes care of this for us. If any action of mine threatened peace, it would have been prohibited by the civil law. Hence, when not thus restricted, I can do what ever I please to further my own interests.⁸³

In Hobbes’ writing, “Justice itself is reduced to a market concept.”⁸⁴ This simultaneously banishes the moral law which must inform all economic transactions from the market place and puts and impersonal “scientific” mechanism in its place. As Langholm puts it:

The scholastics would continue to preach charity, as the Fathers of the Church had done before them, but in a market economy, to base a systematic doctrine of ethics in exchange on charity would run counter to the purpose of maintaining

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a workable Christian economic system among fallen men. . . . Preaching charity as a general norm of market conduct would reach only those who desired to be virtuous, and the end effect would be an accumulation of wealth in the hands of the vicious.¹⁵

The essence of the pagan Roman position is that there is no such thing as a just price or a just wage. Justice lies in the enforcement of contracts, which is up to the parties who conclude them. Price is whatever two parties agree upon. The voluntarily agreed upon contract is the lynchpin upon which everything in Hobbes, and by extension everything in the pagan Capitalist system he was articulating, depends. Just as "That state of nature was brought to an end by a contract, whereby, according to Hobbes, individuals entrusted themselves unconditionally to an absolute state so as to put an end to the war of all against all,"¹⁶ so also, all strife in contemporary society can also be resolved by voluntarily arrived at and agreed upon contracts.

Hobbes's contract is a parody of Faust's because of the exaggerated notion of consent which both contracts share. Just as Faust's consent does not give him ownership of what belongs to God alone, namely his soul, so consent does nothing to change the justice or injustice of a particular economic exchange. Hobbes solves this problem by claiming that justice is irrelevant to any economic transaction. If the poor man give his consent because he is threatened with starvation, the case is closed, and consent is what closed it.¹⁷ According to Hobbes, "Motive is irrelevant." The fact that the parties agreed "proved the terms of the contract are just." Justice "does not pertain to the terms of a contract but only to its fulfillment according to the terms consented to."¹⁸

Virtually every contemporary defender of the capitalist system harkens back to Hobbes' notion of consent as absolving every transaction of the requirements of justice. Writing in the February 2011 issue of *First Things*, Villanova University Law School Professor Robert T. Miller begins his analysis of credit with an attack on Alasdair MacIntyre and a failure to understand what a loan is when he writes that "MacIntyre's story of banks who knew the risks and passed them off on unsuspecting consumers is a fairy tale. . . . More generally, MacIntyre's idea that financial professionals make their living passing off risks on unsuspecting counter-parties is fanciful. Financial institutions . . . accept . . . risks that they can bear more efficiently than can their contemporaries."¹⁹

When St. Bernardine of Siena said that usury killed both charity and business, he was referring to precisely the unfair delegation of risk that is an intrinsic part of a loan. The poor could not borrow their way out of poverty, certainly not then at 44 1/3 percent interest from the Jewish pawnbrokers and certainly not now at 500 percent from the pay day loan outlets

Professor Miller praises. What they needed was 1) charity over the short haul and 2) a living wage over the long haul.

Usury thwarts both charity and the living wage, but usury also destroys business because it discourages investment. Professor Miller doesn't understand that investment, unlike a loan, means shared risk. If the company doesn't make a profit, the investor doesn't get a dividend. If the investor shares risk, there is no limit to the return he can ask. If he refuses to share risk while at the same time demanding a return, he commits the sin of usury. Nothing has changed in this regard other than the ignorance of usury's proponents.

Professor Miller dismisses such considerations by stating apodictically that "No one is forced to borrow money in a capitalist economy." The existence of pay day loan outlets lending at 500 percent per annum would seem to argue against this statement. The only reasons some one would borrow at usurious rates like that are ignorance and necessity. But Professor Miller denies both by applying the principle of "zombie economics"²⁰ known as the Efficient Markets Hypothesis to credit, when he wonders: "If consumer credit products are not tools in a conspiracy to prop up the capitalist system, why do we have such things?" His answer to this dumb question is because "People want these things and are willing to pay for them," but he never asks the next and most obvious question, namely, why anyone would "want" to borrow money at 500 percent interest? The answer is obvious. He borrows at disadvantageous terms because he needs the money. No one would agree to a contract like this were it not for ignorance of the terms of the contract or financial need. What oftentimes begins in ignorance becomes a trap with no escape (even if the victim understands what is going on) simply because money borrowed at such highly usurious rates is unrepayable.

Professor Miller uses the fact that people in need agreed to ruinous terms as proof that the transaction is "just." Usury is just in the same way that starvation wages are just, which is to say, because they were agreed upon. They are also connected in a way which Professor Miller suppresses. The most obvious reason why people have recourse to usurious loans is lack of money, and the most obvious reason why people lack money is systemic low wages. If the situation weren't systemic, there would be no proliferation of pay day loan outlets. The only other possible explanation is ignorance or lack of a better opportunity, which contradicts once again the Efficient Markets Hypothesis that Miller trotted out to justify low wages. In other words, pay day loans are a function not of choice but of necessity.

Miller's approach flies in the face of the Church's traditional teaching on usury, which not only claimed that all interest bearing loans were unjust because all of the risk was shifted on to the weaker party, but also that

people sometimes agree to injustice because of what the Church termed "mixed will" in the face of economic coercion and necessity. Odd Langholm points this out when he writes that: "Numerous authors, condemning usury, compare the borrower's situation to that of the captain who jettisons cargo."²¹ He cites Odonis, who claims that "The situation of the borrower who agrees to pay usury is like that of a prisoner who prefers to be ransomed rather than hanged."²²

Economic thought in the 15th century was unanimous in condemning usury as wrong; they were equally unanimous in denying that consent to a usurious contract absolved it of its intrinsic evil:

Jean Gerson states firmly that usury is and remains evil; it amounts to taking what belongs to another against his will, as in the case of one who jettisons cargo to avoid imminent shipwreck, or like a man of character who consents to matrimony from fear of death. In Italy, Antonino of Florence, quoting the lawyer Lorenzo Ridolfi, states that even one who merely pays usury from fear of not obtaining loans in the future does not pay it voluntarily but as though forced. Experience shows, says Antonino, that people in need tend to affirm and put in writing whatever the usurer demands. Bernardino of Siena quotes St. Ambrose and medieval theologians. Usury is against the law of nature; the usurer takes what belongs to another against the owner's absolute will, if not against his conditional or comparative will. Battista Trovamala . . . draws on Ridolfi as well, perhaps via Antonino. The lender . . . is a robber and therefore a sinner because he exploits the need of his neighbor. The analogy with the captain who jettisons cargo is inappropriate insofar as it lacks this element of personal confrontation. The captain . . . makes a sort of economic sacrifice by abandoning his property in order not to drown. Similarly, some borrowers make an economic sacrifice by promising to pay usury in the future in order to obtain present cash with which to buy necessities. Life may hang in the balance in both cases. The most appropriate analogy is that of the always perceptive Odonis. It contains both personal confrontation and the economic element. The prisoner makes an economic sacrifice by paying ransom to his captors in order to save his life.²³

Capitalism refuses to acknowledge either the sinfulness of usury or the need that coerces the poor into accepting a manifestly unjust contract. Seneca's formula, "*Res tantum valet quantum vendi potest*"—"A thing is worth as much as it can be sold for"—found new currency during the Renaissance when Cosimo de Medici saw financial advantage in overturning the Christian understanding of risk and returning to the pagan legal value maxim which, "in its naked form . . . makes naught of the concept of a just price" and "legitimizes an unlimited use of economic power."²⁴

What began in the Renaissance found completion in Hobbes. Just as the perfect love which Christ preached drove out fear, so the fear which filled the social vacuum when love was driven out and Christ's church was plundered by nascent capitalism became the basis for Hobbes' social order. Reversion to pagan models of economics and politics could bring about no

other outcome.

Fear reigns throughout. Men are compelled to make contracts from fear of what would come to pass if they decline (for instance, borrow at usury so as not to be short of money for food or clothing), and they are compelled to perform from fear of legal repercussions (settle with usury in order to say out of prison) all done voluntarily.²⁵

Fear doesn't invalidate a contract by destroying freedom, as the Scholastics maintained. Now fear and liberty are perfectly compatible. The only important issue is consent. Hobbes took the notion of mixed will and turned it upside down to justify the very same usurious contracts the Scholastics condemned when he wrote in *Leviathan*:

Fear and Liberty are consistent; as when a man throweth his goods into the sea for fear the ship should sink, he doeth it nevertheless very willingly, and may refuse to do it if he will: it is therefore the action of one that was free.²⁶ In *The Elements of Law*, Hobbes writes that: "The example of him that throweth his goods out of a ship into the sea, to save his person, is of an action altogether voluntary: for there is nothing therein involuntary but the hardness of the choice, which is not his action but the action of the winds."²⁷

According to Hobbes, compelled actions are voluntary.²⁸ That is the end of the story, whether we are talking about theft or business or wage negotiations. As a corollary, the traditional scholastic concept of a just price and the just wage must lose its meaning. The idea of the agreed upon covenant becomes the center of Hobbes' social theory. In *The Elements of Law*, he writes: "Forasmuch as both the buyer and the seller are made judges of the value, and are thereby both satisfied, there can be no injury done on either side, neither party have trusted or covenanted with the other."²⁹ In *De Cive*, he writes: "For neither if I sell my goods for as much as I can get for them do I injure the buyer, who sought and desired them of me."³⁰ Hobbes enabled the rise of English capitalism, which threw into eclipse the tradition which St. Bernardine of Siena articulated when he wrote:

A contract is invalid if obtained on account of ignorance or fickleness or some great poverty or other compelling need, "even though such a contract appears to proceed from the consent of both parties, because according to Aristotle in *Ethics*, III, ignorance and any kind of compulsion excludes the will."³¹

Langholm claims that "the first breach in the bulwark of liberalism," which asserted the absolute nature of contracts, "occurred in the area of wage relations."³² Even John Stuart Mill was forced to "acknowledge that the labor contract is a special case."³³ That breach widened when Leo XIII issued *Rerum Novarum*, which called for a just wage, and thereby reintroduced moral considerations into the realm of political arithmetic.³⁴ After the notion of laissez faire and the absolute contract found articulation in Hobbes, it became the central pillar of English capitalist social theory.

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Once widely accepted it makes any moral understanding of the nature of economic exchange virtually impossible. Locke deplores the fact that a poor man agrees to a starvation wage every bit as much as Antonino of Florence had, but “he locates the source of the evil in the general scarcity of money, not in the morals of the employers.”³⁵

From Hobbes onward, the classical system of economics is clear in claiming that injustice “is nothing other than the nonperformance of Covenant.”³⁶ Economic transaction, according to this view, becomes a deal between Faust and the devil. “The law is limited to adjudicating disputes in the private sector. The state provides a neutral impartial framework.”³⁷ The state, in other words, does not concern itself with content. If the contract was agreed upon by both parties, the state, now playing the part of the devil, will insist on its enforcement, even if the thing agreed upon involves something which is morally indefensible, such as usury. “Economic naturalism is not concerned with norms, or, more correctly, all norms are reduced to a single norm, that of letting the natural laws of economics operate freely.”³⁸ Hobbes’ insistence on covenant as the only norm leads naturally to the system of *laissez faire* economics, which “found its clearest expression in Smith’s ‘obvious and simple system of natural liberty.’”³⁹

Hayek speaking for the Austrian School seconds Hobbes when he writes, “Although coerced, it is still I who decide which is the least evil under the circumstances.”⁴⁰ Purely economic coercion does not exist.

In the economic sphere, the law permits economic actors to make their own contracts and restricts itself to ensuring that they are kept according to their terms properly interpreted. In addition, the classical system assumes markets to be perfectly competitive so that neither party to a contract has power over another.⁴¹

The gradual erosion of the Church’s position on usury took place over centuries, during which the Church lost its police power over large areas of Europe because of the Protestant revolt. Morality was left without a defender in public life. As if that weren’t bad enough, morality itself was seen as an inadequate defender of the social order because it depended on men being good, a tenet which was no longer defensible in the light of the new reformed gospel which exaggerated the effects of original sin and claimed that the innate depravity which flowed therefrom rendered man incapable of performing any good act. The law rose in popular estimation at the same time that it was emptied of any moral content. The Church had maintained that “beyond all human jurisdiction, a stricter code of justice in exchange would remain as a purely moral obligation, for which lenders and borrowers, sellers and buyers, employers and employees would be answerable only to God, in the internal court of their own conscience.”⁴² But the Church never claimed that, therefore, the moral realm was purely private. The

Church never hesitated to "proceed against usury, which is unjust profit on loans, and against unjust prices and eventually against unjust wages; establishing norms and criteria regarding just terms of exchange, the primary purpose of which was to combat and limit the exploitation of need"⁴³ in courts of law, whether civil or ecclesial. But that changed as a result of the Reformation. Once the police power of the Church had been broken, thinkers like Hobbes began to feel that "moral admonishments were an ineffective bridle on avarice" and that "a workable economic ethics must be established on a different basis."⁴⁴ That different basis was "science," which was another word for magic.

Instead of contesting the sophistry of Hobbes and other representatives of the new science, the late Scholastic thinkers at Salamanca accepted the premises of their enemies and as a result helped to bring about the breakdown of the Medieval paradigm.

In the 17th century, the greatest economic thinker trained at Salamanca was Juan de Lugo, who taught and wrote in Italy. In the name of defending Aquinas, Lugo overthrew his teaching on usury when he claimed that "there can be no question but that the ownership of money paid as usury passes to the usurer."⁴⁵ Over the course of four centuries, the set of extrinsic title which had been invoked to justify taking interest had gradually been expanded to accommodate what was clearly usury. *Damnum emergens*, which traditionally meant a loss actually sustained, was expanded to include *lucrum cessans*, which meant a loss stemming from a missed profit opportunity. By justifying *lucrum cessans* as a legitimate title for compensation and claiming that it was not usury, Lugo "is at one with the most notorious anti-Aristotelian of his age, Thomas Hobbes."⁴⁶ In fact,

Lugo's treatise *De iustitia et iure* appeared in 1642. The very same year saw the publication of Hobbes's *De Cive*. In this work a novel idea of natural law finds expression. Decisively breaking with Aristotle, one of its main tenets is that men fulfill their promises, even when proceeding from fear, for justice pertains to the keeping of covenants, not to their terms. . . . The School of Salamanca represents a transitional stage, wherein the doctrines of the medieval masters mingle with more liberalistic ideas about the role of the market, frequently in one and the same author.⁴⁷

Hobbes decided to return to England after the publication of *Leviathan* in 1651. Some of Hobbes' contemporaries would claim that he wrote *Leviathan*, justifying the Puritans' naked seizure of power and regicide, so that he could end his exile in France.⁴⁸ When Edward Hyde, the future earl of Clarendon, visited Hobbes early in 1651, Hobbes showed him the proof sheets of *Leviathan*. Hyde later recalled asking Hobbes in shocked tones "why he would publish such doctrine," to which Hobbes answered, "The truth is, I have a mind to go home."⁴⁹ Clarendon sought to make this ad-

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mission a matter of grave reproach after the Restoration of 1660. Hobbes's implacable enemy John Wallis went so far as to argue that *Leviathan* "was written in defence of Oliver's title, or whosoever, by whatsoever means, can get the upmost."⁵⁰

Hobbes hated the Puritans. When Englishmen would visit him in exile in Paris and recount the latest roundhead impiety along with their claim that success was a sign of God's favor, Hobbes was appalled. "I could not bear," Hobbes declares, "to hear so many crimes attributed to the commands of God."⁵¹ The principle that might makes right and that whatever is, is right which would find expression later in the Darwinian principle of survival of the fittest had already taken firm root in English thought. It was the theoretical justification of the looting which had created the modern world of capitalist England. And Hobbes, who felt that nothing was real except matter in motion,⁵² was in no position to object. And so he made an opportunist's peace with the new regime. Hobbes received a warm welcome when he arrived in London in early 1652, but the warm feelings were far from universal. In February 1652, Sir Edward Nichols got to the heart of the matter when he wrote that "Mr. Hobbes is at London where he is 'much caressed' by the supporters of the new regime 'as one that hath by his writings justified the reasonableness and righteousness of their arms and actions.'"⁵³

With the restoration of the Stuarts, Hobbes received an opportunist's reward by being ostracized. The Royal Society refused to admit him as a fellow after it received its charter in 1662.⁵⁴ The only thing that kept him from going to jail or worse was the protection of the Cavendish family, who involved him in the popish plot of 1678. Hobbes' handwritten comments, now shaky with age, can still be seen on the manuscript of the violently anti-Catholic tirade which the Earl of Shaftesbury gave when parliament met in March of 1679. "Shaftesbury's speech opens with the warning that Popery and Slavery like two Sisters goe hand in hand."⁵⁵ Hobbes died at the age of 91 on December 4, 1679. The Cavendish family seems to have gotten their money's worth from his services. William Cavendish would later be part of the conspiracy which deposed James II and put William of Orange on the throne, "a service for which he was rewarded with a dukedom in 1694."⁵⁶

In the end Hobbes brought about the corruption of politics and economics by alienating the English mind from their natural substrate in morality. Deprived of its roots in the moral law, civil law became nothing other than "the Will and Appetite of the State."⁵⁷ The term "natural law" underwent a similar transformation.

Through the explanation of nature by Hobbes and Descartes, the mechanical conception triumphed completely, reducing all natural phenome-

na to small atoms which are put in motion. The loss of proper philosophical perspective had consequences for the whole concept, study, and appraisal of economic life. The triumph of the mechanical conception of the universe led to the corruption of the science of economics. It brought about the submersion of the moral order in the physical order. The reaction to Hobbes, the Elizabethan police state and mercantilism did not bring about a return to the moral law as the natural locus for understanding economic transactions. Instead, "a century or more after Hobbes, the early proponents of classical liberalism imagined that they had solved this problem by postulating the existence of an inherent benevolent mechanism that turned private avarice into a social blessing."⁵⁸

The late Scholastic failure to reassert the hegemony of moral philosophy over economic exchange coupled with the rise of "scientific" (i.e., pseudo-physics) thought led to the rise of the impersonal market, itself a pale imitation of the mechanism of the Newtonian universe, as the best arbiter of all economic exchange.

The individual exchanger would be seen to be less and less involved in a personal relationship but as confronting a system, a set of economic laws known as a matter of empirical fact, driven by self-interest but regulated by abstract impersonal forces which were the economic equivalent of gravity. In this way, the scientific model led to the breakdown of the scholastic paradigm. In the modern world which took Faust as its model, "justice is primarily a matter of keeping contracts," and "anyone is moderator and arbiter of his own thing."⁵⁹ The evasion of moral responsibility known as the mechanism of the market allowed

economic actors to disclaim subjective, personal moral responsibility for their own use of economic power. This was something that happened gradually with the increasing objectivization . . . or . . . depersonalization of the idea of the market. More than anything else, it signals the breakdown of the medieval scholastic approach to economic ethics.⁶⁰

Endnotes

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Chapter Thirty-Nine

Isaac Newton and Violent Motion

In 1687 the Royal Society published Isaac Newton's *Principia Mathematica Philosophiae Naturae* to almost universal acclaim. Its publication became an event that was compared with God creating the world, as when Alexander Pope wrote "God said, 'Let Newton be!—And all was light.'" The publication of the *Principia* has been portrayed as a quasi-divine act ever since.

Newton, who became head of the Royal Society in 1704, was the cornerstone of the edifice now known as Whig history. In his attempt to define the term, Glenn Olsen cites an article which appeared in the *New York Review of Books* in 2004 which characterizes the Royal Society as:

an international society of men, and later, women, dedicated to the pursuit of knowledge rather than personal gain. They organized collective inquiries, sent each other news of discoveries, . . . in the hope of establishing the simple truth. . . . As citizens of this republic, they professed that they did not care about rank or gain only about the truth—to the point that some of their new periodicals did not give the names of authors.²¹

To say that Newton—who used his position as head of the Royal Society to blacken the name and obliterate the memory (no extant portrait remains) of Robert Hooke and destroy the career of fellow Society member Gottfried Wilhelm von Leibniz over who was the first to discover the calculus—did not "care about rank or gain" is nothing short of preposterous, but it does show the intellectual power Whig history continues to exert, at least in the English-speaking world. Even as perceptive a biographer as Richard Westfall has recourse to the imagery of the gods in describing Newton when he writes

He has become for me wholly other, one of the tiny handful of supreme geniuses who have shaped the categories of the human intellect, a man not finally reducible to the criteria by which we comprehend our fellow beings . . .²² And what was this divine accomplishment? Newton's *Principia* brought heaven and earth together in one unified system. He united celestial and terrestrial mechanics, the systems of Kepler and Galileo respectively, into one unified mathematical construct described by the inverse square law. "This achievement," we are told, "is comparable to solving the problem currently facing physicists—the unification of relativity and quantum mechanics."²³

Newton could lose himself in an intellectual project, and in 1664 the

project which seized his attention, "to the virtual exclusion of everything else," was mathematics.⁴ Newton was 22 years old and had been at Cambridge University for four years when he picked up and mastered Descartes' *Geometry*. During the summer of 1665, it "pleased Almighty God in his just severity. . . to visit this towne of Cambridge with the plague of pestilence,"⁵ and Newton retired to his mother's house in Woolsthorpe to avoid contagion.

At this point the mythology surrounding Newton's life begins in earnest, for it was in the garden at Woolsthorpe that Newton watched an apple fall to the ground and from that singularly unsingular event supposedly deduced the mathematics of the inverse square law and the principle of universal gravitation. According to Conduitt's version of the story, Newton

retired again from Cambridge [in 1666]. . . & whilst he was musing in a garden it came into his thought that the power of gravity (which brought an apple from the tree to the ground) was not limited to a certain distance from the earth but that this power must extend much farther than was usually thought. Why not as high as the moon said he to himself & if so that must influence her motion & perhaps retain her in her orbit.⁶

Newton moves the discovery of the inverse square law to the plague year of 1665 but his version of the story is essentially the same:

And the same year [1665] I began to think of gravity extending to the orbe of the Moon & (having found out how to estimate the force with which [a] globe revolving within a sphere presses the surface of the sphere) from Kepler's rule of the periodical times of the Planets being in sesquialterate proportion of their distances from the center of their Orbs, I deduced that the forces which keep the Planets in their Orbs must [be] reciprocally as the squares of their distances from the centers about which they revolve & thereby compared the force requisite to keep the Moon in her Orb with the force of gravity at the surface of the earth and they answer pretty nearly. All this was in the plague years of 1665-66. For in those days I was in the prime of my age for Invention & minded Mathematicks & Philosophy more then at any time since.⁷

Robert Hooke, Newton's immediate predecessor as president of the Royal Society, hotly contested these assertions, claiming that Newton got the idea of gravitation from him. Since both Newton's and Conduitt's accounts of the *anni mirabiles* of 1665-6 were written after the fact when charges of plagiarism were flying, the written record supports Hooke, who wrote the following "remarkable passage" in his *Lectiones Cutlerianae* in 1674:

This depends upon three Suppositions. First, That all Coelestial Bodies whatsoever, have an attraction or gravitating power towards their own centers, whereby they attract not only their own parts, and keep them from flying from them, as we may observe the earth to do, but that they do also attract all other Coelestial Bodies that are within the sphere of their activity. . . the Second supposition is

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this, that all bodies whatsoever are put into a direct and simple motion, will so continue to move forward in a straight line, till they are by some other effectual powers deflected and bent into a motion describing a Circle, Ellipsis, or some other more compounded Curve Line. The third supposition is, That these attractive powers are so much the more powerful in operating, by how much nearer the body wrought upon is to their own Centers. Now what these several degrees are I have not yet experimentally verified. . . .⁸

Conspicuous by its absence from Hooke's account is any notion of the inverse square law, from which Newton claims to have deduced the principle of gravity. Westfall debunks the myth of the apple, but he also calls into question the connection between the inverse square law and gravity when he writes that the apple story:

vulgarizes universal gravitation by treating it as a bright idea. . . . Universal gravitation did not yield to Newton at his first effort. He hesitated and floundered, baffled for the moment by overwhelming complexities, which were great enough in mechanics alone and were multiplied sevenfold by the total context. What after all was in the paper that revealed the inverse-square relation? *Certainly not the idea of universal gravitation* [my emphasis].⁹

Newton was a mathematician of genius, but he put mathematics to more than one use in the *Principia*. The first use was to describe the attraction which gravity exerted between bodies in general and the planets in particular. The second use was to cover his tracks. Newton deliberately made the *Principia* as unreadable as possible by adding large sections of mathematical equations of his own invention. Newton told his friend William Derham that it was "for this reason, namely to avoid being baited by little Smatterers in Mathematicks . . . [that Newton] designedly made his *Principia* abstruse."¹⁰

Admirers of the *Principia* have been in such awe of Newton's mathematical ability that they have failed to see that it aspired to be more than mathematics. It was a treatise in physics and mechanics, but it was also a cosmology as well. And it was in these areas that the first objections to his system began to intrude upon the otherwise universal applause which greeted its birth. Newton claimed that the celestial motion of the planets could be explained by two laws. The first law was inertia, by which Newton claimed that all bodies in motion would continue in motion until acted upon by another body. This reversed the common sense (and Aristotelian) notion of a universe in which most objects were at rest, by claiming that rest was the exception and motion the rule.

David Berlinski has written a study of Newton that is every bit as adulatory as the most fervent Whig tract, yet he quickly runs into trouble in trying to explain crucial Newtonian terms. Inertia or uniform rectilinear motion is, according to Berlinski,

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natural in the relative sense that it has no explanation within Newton's system. A body in motion just keeps on going; Newton's system can explain where it is going, but it cannot explain why it is going there in a straight line rather than a circle, a spiral, an ellipse or any other shape.¹¹

Rule One was, however, only half of the system, because according to the law of inertia bodies would continue in motion in straight lines leading to a total dispersal of all matter and energy, leading to chaos. The second principle of the Newtonian system is universal attraction or gravity. What brought the universe into circular or perfect motion and created what we might call the solar system was gravity. Gravity was the universal force of attraction which held the universe together much as the string attached to the rock keeps it revolving around the head of the boy swinging it rather than flying off into space.

When Berlinski tries to explain Newton's second great principle, however, gravity fares no better than inertia. "Material objects," Berkinski tells us, "tend to accelerate toward one another. Why do they do this? They just do."¹² Berlinski's explanation of Newtonian force is just as occult:

Contact forces are easy to grasp. One object hits another. Bang! There it is. Newtonian forces cannot be grasped at all. They act invisibly; they act at a distance; and they act at once. It is only their trace in matter that can be detected. They have withdrawn themselves from the world of appearances, acting in the world of particles as what Newton called their "secret springs." This may well seem to represent a disturbing intellectual retreat, one moving backward to the dark night of medieval powers and potentialities. And so it is.¹³

Berlinski claims that Newton "brought the universe under the control of his imagination"¹⁴ through a "miraculous fusion" of mathematics and physics,¹⁵ but in the end, we are confronted with a maze of circular definitions, as when Berlinski writes,

An immediate inference follows from Newton's first and second law. If the orbit of the moon is not straight, some force must continuously be deforming its path. But if the orbit of the moon is circular, the force deforming its orbit must be centripetal. It has its origin at the center of the earth. This conclusion follows from Newton's general analysis of circular motion. Any object traveling in a circle around a fixed point is controlled by a centripetal force.¹⁶

Newton concluded that that the operation of gravity could be described mathematically by the inverse square law. Like Newton Berlinski makes use of the inverse square law to escape from the circularity of his arguments:

Every material object attracts every other material object with a force that is proportional to its mass and inversely proportional to the square of the distance between them. The mathematical expression has familiar quality of a sentence spoken in an imperfectly understood language: material objects in all parts of space binding one another and being bound by a connection whose nature is

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unfathomable in all respects except the mathematical.¹⁷

In other words, the math makes sense, but, as the last sentence indicates, the Newtonian system remains fundamentally unfathomable because neither Newton nor his epigoni could explain either what gravity was or how it worked.

Newton's readers on the continent, in particular Christiaan Huygens and Gottfried Wilhelm von Leibniz, picked up on this immediately, and accused Newton of covertly smuggling occult properties into his system. Both Huygens and Leibniz rejected the central concept of Newton's *Principia*: Huygens found the principle of attraction "absurd." For his part, Leibniz was astonished that Newton had not proceeded to find the cause of the law of gravity, by which he meant an aethereal vortex which would reduce attraction to a mechanical cause.¹⁸

Newton could never explain what gravity was or how it worked. In a letter to Richard Bentley, Newton wrote: "You sometimes speak of gravity as essential & inherent to matter, pray do not ascribe that notion to me, for the cause of gravity is what I do not pretend to know & therefore would take more time to consider of it."

"Tis unconceivable," Newton continued,

that inanimate brute matter should (without the mediation of something else which is not material) operate upon & affect other matter without mutual contact; as it must of gravitation in the sense of Epicurus be essential and inherent in it. And this is one reason why I desired you would not ascribe innate gravity to me. That gravity should be innate inherent & essential to matter so that one body may act upon another at a distance through a vacuum without the mediation of any thing else by & through which their action or force may be conveyed from one to another is to me so great an absurdity that I believe no man who has in philosophical matters any competent faculty of thinking can ever fall into it. Gravity must be caused by an agent acting constantly according to certain laws, but whether this agent be material or immaterial is a question I have left to the consideration of my readers.¹⁹

Three hundred years after Newton warned Bentley not to "ascribe innate gravity to me," David Berlinski, one of Newton's most fervent admirers, does just that when he writes, that gravity "has its source in matter itself and acts as the supreme expression of the tendency of material objects to draw close to one another. It is an object's gravitational mass that expresses an object's innate power of attraction."²⁰ Berlinski refers to the concept of gravity as "both fruitful and mysterious" and, therefore, "a perfect metaphor for the very activity of rational inquiry."²¹ What Berlinski should have said is that the mystification associated with gravity is a perfect metaphor for the Newtonian system and the English ideology (what Butterfield would call the myth of Whig History) constructed on the dubious foundation of Newtonian physics. The more Berlinski tries to explain this "an-

cient and irresistible force," the more the mystery deepens. Or as he puts it:

If gravity explains much that might otherwise be perplexing, it is an explanation that proceeds by means of a mystery. Gravity acts at a distance and it acts at once. No other force in nature would seem to behave in this way. A force with such properties is hardly mechanical, however much it may be transmitted by material bodies. What is perhaps as perplexing is gravity's irreducible character. There is within Newtonian mechanics no explanation for gravity's force in terms of other forces—the movement or distribution of particles, say. Gravity is what it is; and it cannot be explained in simpler terms or by an appeal to the more elementary constituents of matter. We are acquainted with gravity through its effects; we understand gravity by means of its mathematical form. Beyond this, we understand nothing.²²

When they were still on speaking terms—which is to say, early in 1693—Leibniz wrote to Newton claiming that the Cartesian ether (with its concomitant vortices) was the cause of gravity, but Newton rejected the idea, claiming that:

since all phenomena of the heavens and of the sea follow precisely, so far as I am aware, from nothing but gravity acting in accordance with the laws described by me, and since nature is very simple, I have myself concluded that all other forces are to be rejected and that the heavens are to be stripped as far as may be of all matter, lest the motions of planets and comets be hindered or rendered irregular.²³

Newton's physics was based on a rejection of Aristotle's idea of natural motion, which taught that the four elements—earth, air, fire and water—all had their natural place, and that bodies in which any one of those elements predominated would go either up—home or the natural abode of both fire and air—or down—the natural abode or home of both earth and water. Once each body reached its natural place it would be at rest, a state which characterized most of the universe. The motion of a body away from its natural place of rest was known as "violent motion."

In place of Aristotle, Newton adopted the physics of Descartes, which divided the world into matter, the *res extensa*, and thought, the *res cogitans*. The *res extensa* was all of one piece. The entire physical universe was one fabric or one fluid composed of atoms, and motion occurred when one atom bumped into another and conveyed to that second atom its motion in much the same way that a locomotive conveys motion to a string of boxcars.

Newton was drawn to Descartes' notion of the *res extensa* because both men were co-belligerents in the war against substance that began when Calvin attacked the scholastic doctrine of transubstantiation in his *Institutes*. Church fathers such as St. Jerome had declared that Christ was present in the Eucharist "in the modus of spirit, that is, it is there in substance but without extension." Calvin, on the other hand, claimed that "since the

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essence of body is to have extension, Christ's body would need to have its full size to be literally present in the Eucharist, since extension is the truth of the body."²⁴

Anne Gardiner notes that the Calvinists and the Cartesians were of one mind when she writes that the war on substance "revealed a strange, astonishing convergence of Calvinism and Cartesianism. The term body had been the chief battlefield in Europe for over a century, involving Catholics against Protestants, and Lutherans against Zwinglians and Calvinists."²⁵

In the *Recueil*, Pierre Bayle, who claimed to be a Catholic at the time, explained the theological implications of the new philosophy, with its definition of body as mere extension, when he claimed that it was "capable of overthrowing the Catholic Eucharist. No need, then, to torment ourselves any more about interpreting 'This is My Body,'" Bayle continues, "for we can now ignore whatever Catholics write."²⁶ Newton found this worldview attractive because he was violently anti-Catholic. He was a radical Whig and as such an heir to the Puritan revolutionaries and the looters who had grown rich from expropriating Church property in the 16th century.²⁷

Newton was also an Arian, which is to say, someone who denied the divinity of Christ. This made him, of course, a heretic in the eyes of the university which had granted him the Lucasian chair in mathematics, a sinecure which required Holy Orders if Newton wanted to retain it. This led to lots of political maneuvering on Newton's part and at least three instances of perjury when in order to keep his position he proclaimed his adherence to a Trinitarian doctrine which in private he viewed as one of the most pernicious effects of popery.

Newton was also smart enough to understand that the scholastic worldview and the modern/Cartesian worldview were at such odds that no compromise between them was possible. One would eventually win out over the other, but no university could function as if both were true simultaneously. The new system gave priority to mathematics. In fact it projected geometrical concepts onto the world in a completely unprecedented fashion that was nothing short of revolutionary:

The convergence of two types of moderns – Calvinists and Cartesians – in defending the same definition of body or matter was a turning point in the 17th-century war between the Ancients and the Moderns. Both Calvinists and Cartesians borrowed a key definition of body from geometry and transferred it, respectively, into religion and philosophy. When the two converged, like two great tributaries of the Nile, they formed the great flood of modern subjectivism: for just as Calvinists trusted their private spirit, so Cartesians trusted their unaided natural reason as the gateway to truth. Both set aside what the Ancients treasured – the historical sources of truth, tradition, Church Fathers, Councils, and most of all unbroken continuity down through the ages. When these two converged, they swept away a vast realm of individual metaphysical substances

and left us a universe with only one measurable substance called extension.²⁸

Newton was quick to understand the political implications of overturning the concept of substance. If the universe were nothing but geometrical extension, then the geometer was the soon-to-be-acknowledged new ruler of this brave new world, which came about when "these moderns blurred the line between mathematics and reality and reduced the objective world to something merely measurable."²⁹

Once the Cartesians and the Calvinists reduced the universe to the purely measurable, everything that happened in that universe—from the Battle of Lepanto to the painting of the Sistine Chapel—became nothing more than "a vast puzzle in geometry." Modern thinkers were then given their new marching orders and everyone from John Locke to the Marquis de Sade was expected to explain how all of human history came about because little balls happened to bump up against each other on the vast plane of geometrical space now known as the *res extensa*. Malebranche, to give the example which Gardiner cites, "stated that matter was not composed of many beings, but was merely one sole being in which extension diversely figured and agitated made all that we can see of the material world." Gardiner continues:

In one fell swoop, the new philosophy banished a countless multitude of subjects that had always been thought to really exist in the objective world – what the poets called the great, hierarchical Chain of Being – and left only infinite extension, or matter. The new philosophy provoked the so-called excremental vision of British satirists, because such a notion of matter suggested an egalitarian muck perceived and manipulated by disembodied minds.³⁰

The new philosophy created a new principle of legitimacy. By transferring the definition of body from geometry to philosophy, "the new philosophers adopted a 'geometrical' type of reasoning, by which religion and ethics were to be evaluated, instead of by antiquity, continuity, and Church authority."³¹ The political geometer was the new philosopher king, something Pere Valois, the Catholic priest and apologist for the Council of Trent, found both preposterous and intolerable: "Are these philosophers? Can a triangle still be a triangle without three angles? Are they come to this, that they will believe such things to remain Catholic?" Gardner points out that, unlike the Church Fathers, the modern philosopher had to believe in things that were in themselves impossible: "According to de Valois, no one before the new philosophers had ever said that a body could change its essence like clothing. . . . No one ever doubted before Descartes that the essences of things are immutable."

Under the old dispensation, no one would presume the power to change the essence of any object in nature or the eternal truths derived from the contemplation of those substances or the political systems which derived

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from it. But all of those things became possible once substance was abolished. Once substance was banned from the universe, the only thing that mattered was external force; objects had no source of internal motion because they lacked the *telos* which comes with substance. The disappearance of substance, in other words, proclaimed the rise of force.

Since both Descartes and his followers on the continent were at least nominally Catholic they avoided the political and theological implications by recourse to dualism, or as Gardner puts it: "The Cartesians were insisting that, in the light of reason, the essence of body was always extension, but in the light of faith, it was something else unknown." The Council of Trent taught "that the body of Christ loses much of its extension without losing any of its substance in the Eucharist, but Descartes teaches that it is impossible for a body to lose extension without losing its substance."³²

According to Mirowski Descartes

propounded the rationalist program of the reduction of all phenomena to matter in geometrical motion. . . . Descartes scorned the idea of any action at a distance, and hence endeavored to give a systematic treatment of motion and impact. The Cartesian world was composed of various-sized grains of matter, swirling in huge vortexes at high speeds, transmitting pressure instantaneously to grosser bodies. As the finest matter, the "ether," courses about in vortical motion around the earth, it moved faster than terrestrial matter, pushing bodies towards the center of the earth. All bodies possessed a "force," which was proportional to mass $\times$ velocity, or in modern notation $mx[v]$. Upon impact, the force lost by any one body was gained by the other; this motion was communicated . . . between bodies, and therefore was conserved.³³

It was Descartes, in other words, who established the conservation principle as the norm of modern science. Newton adopted this norm as his own because there is in the notion that when two particles interact their net momentum is zero:

something almost childishly satisfying, a mechanical resolution that satisfies a very primitive artistic sense. Conversation principles play a deep role throughout mathematical physics, if only because the conversation of physical quantities reflects a certain symmetry in the very organization of the universe.³⁴

Descartes constructed the first comprehensive mechanical physics out of three basic principles:

- 1) the conservation of modes of bodies, including motion and rest in the absence of disturbing factors
- 2) conservation of the total quantity of "force of motion" in collisions between bodies; and
- 3) the determination of this force of motion to act in a straight line tangent to the path of the body.³⁵

Descartes's reduction of the universe to the geometric *res extensa* led to the dream of Pierre Simon Laplace, namely, that:

An intellect which at a given instant knew all the forces acting in nature, and

the position of all things of which the world consists . . . would embrace in the same formula the motions of the greatest bodies in the universe and those of the slightest atoms; nothing would be uncertain for it, and the future, like the past, would be present to its eyes.

And Laplace's dream led to the myth of the universal algorithm, which is to say, "the single mathematical formula that described the entire world."³⁶ Over the course of the late 19th and early 20th century, Laplace's dream of the universal algorithm would die a long, slow and painful death in mathematics (at the hands of Goedel's theorem) and physics (at the hands of Heisenberg's uncertainty principle) but it continued to live on in the field of economics and didn't find its final disastrous exposition there until the end of the 20th century when the Black-Scholes equation leading to the collapse of Long Term Capital Management killed the idea of the universal algorithm in the realm of finance.

The proles who watch Carl Sagan and Stephen Hawking on educational television are kept in the dark about these failures, largely because, as Mirowski puts it, "One motive of the Laplacian Dream was the barely disguised usurpation of God's place in the universe."³⁷ Cosmology, in other words, is about God, and competing cosmologies are about either affirming God as the Lord of Creation or creating an alternative to that vision for political and economic reasons. Once energy replaced substance as the organizing principle of physics around the middle of the 19th century, physics "usurp[ed] the throne from physical astronomy,"³⁸ and Newtonian physics found itself in a position analogous to that of James II, the erstwhile Catholic monarch of England. One of the boldest assertions of energy physics and one of the biggest challenges to the Newtonian model was the failure of the conservation principle, something which had significant economic implications, as when Mirowski claims that it meant that "it now appears that the universe is a free lunch,"³⁹ something that Newton and his Whig backers would have found displeasing.

One message that the Scholastics derived by combining Aristotle with Genesis is that the universe is one large free lunch, tempered by the Fall and man's need to work by the sweat of his brow, but a free lunch nonetheless. This is what St. Thomas Aquinas means when he claims that "the conception of the order of things to an end is strictly providence. . . . Providence is the conception in the divine intellect of the order of all things to their end; and the divine governance . . . is the execution of that order."⁴⁰ This description of the universe is fraught with profound economic implications, which are stated explicitly in Scripture passages like Matthew 6:25, in which Jesus talks about God providing for the birds of the air. Providence, in other words, is directly deducible from motion, because "If there is order in the world of sense, a providence for the birds of the air, much more so will there

be order in the spiritual world and a providence for the immortal souls of men.³¹

There is no free lunch in the Cartesian universe, nor in the universal algorithm which Laplace deduced from that universe, nor in the universe which Newton confected out of Cartesian principles. Capitalism is compatible with these universes, but Genesis is not; hence, Mirowski's claim that the idea "that the universe is a free lunch" is something that "has got to be bad news for an economist."³²

Thus, the rise of the Cartesian universe had significant economic implications, but those economic implications would only become explicit after the principles of Newton's *Principia* had been incorporated into the Whig regime after their accession to power following the Glorious Revolution. Once safe havens for the new philosophy had been established in Holland and England, the Cartesian dualism which claimed that what was true in the realm of faith need not be true in the realm of philosophy and vice versa became unnecessary, and thinkers like Newton could expound a new "Protestant" cosmology, and thinkers like John Locke could explicate its political and economic ramifications.

Leibniz and Huygens were smart enough to realize that in the Cartesian material universe which Newton ostensibly espoused, there was no possibility of action at a distance. And that meant that there could be no such thing as gravity. White tells us that Leibniz

was suspicious of Newton's entire concept of gravity, referring to it mockingly as "the rebirth in England of a theology that is more than papist and a philosophy entirely scholastic since Mr. Newton and his partisans have revived the occult qualities of the school with the idea of attraction."³³

Well, Newton was certainly no papist. Where then did the idea of gravity come from? Leibniz got it right when he claimed that Newton smuggled "gravity" into his system. But he got the source wrong. Leibniz knew there was something "occult" about Newton's idea of gravity, but he thought the source of Newton's cosmology was scholasticism, when in reality it was alchemy. Newton was a mathematician of genius, but when it came to his cosmological principles, Newton was first and foremost an alchemist.

Beginning in 1669, Newton devoted the next ten years of his life all but exclusively to alchemical research, including experiments in his Cambridge apartment. Newton told his official biographer Conduitt that he had spent his own money to purchase *Theatrum Chemicum*, the six volume compilation of alchemical treatises published by Lazarus Zetzner in 1602, as well as alchemical apparatus that included "several furnaces in his own chambers for chymical experiments."³⁴

Alchemy was born in Alexandria when Egyptian metal workers and dyers tried to find an explanation for their craft in Greek Philosophy at the

beginning of the Christian era. The center of alchemical thinking was Alexandria, founded by Alexander the Great in 331 BC, and the natural place for the meeting of Greek thought and Egyptian art.⁴⁵

Alexandria was important in the history of astronomy and cosmology as well. It was in Alexandria that Aristarchus of Samos first proposed the heliocentric universe.⁴⁶ According to Hopkins, "real alchemy did not exist until philosophy had been applied to explain the artistic creations of the workers in metals."⁴⁷ Arthur John Hopkins goes on to claim that the scientific explanation of metal work in Egypt had to wait until "the time of Lavoisier and the rise of modern chemistry." That means, of course, that both Newton and Boyle, the twin pillars of English science, were trying to make sense of the physical world by recourse to "scattered notions inherited from a diluted, syncretic form of the philosophy enunciated in the fourth century BC by Plato and Aristotle,"⁴⁸ which is to say, out of the philosophical tradition which the Cartesians had repudiated.

Hopkins claims that "Plato and Aristotle furnished the philosophy upon which alchemy rose,"⁴⁹ but both Plato and Aristotle derived their ideas from Empedocles. Newton's cosmology, as a result, was a conflation of Pythagorean mathematicism and alchemy, under the deceptive cover of Cartesian materialism, all of which is traceable to Empedocles. Empedocles synthesized Pythagoras's ideas about the mathematical nature of the universe with pre-Socratic notions of prime matter. Instead of choosing Thales (who, like Pythagoras, thought it was water) over Heraclitus, who thought it was fire, Empedocles included all four of the elements in his cosmology. Empedocles' "ingenious combination of these views" was a "major contribution to the dispute about the primordial element, which lasted almost as long as Greek philosophy itself."⁵⁰

Empedocles would have suggested himself as a valuable role model for Newton for other reasons. Empedocles came from a rich family; he worked miracles by magic and was therefore consulted by the citizens of Acragas as an oracle, much as Newton was consulted as an oracle by the Whigs of his day.

Like Empedocles, Newton was a synthesizer. Just as Newton brought together the celestial mechanics of Kepler and the terrestrial mechanics of Galileo, Empedocles brought together Heraclitus, who felt that all was flux, and Parmenides, who claimed that nothing changed, into one dynamic system in which two diametrically opposed cosmic principles united (or copulated) creating perfect circular motion, or what we would call the cosmos or solar system. Those two fundamental principles were love and strife. In uniting love and strife in one system, Empedocles created the first conservation principle. Or as Empedocles would put it:

Double is the generation of mortal things, double their passing away: one is born

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and destroyed by the congregation of everything, the other is nurtured and flies apart as they grow apart again. And these never cease their continual change, now coming by Love all into one, now again all being carried apart by the hatred of Strife. Thus insofar as they have learned to become one from many and again become many as the one grows apart, to that extent they come into being and have no lasting life; but insofar as they never cease their continual change, to that extent they exist forever, unmoving in a circle. . . . And in addition to them nothing comes into being or ceases. For if they were continually being destroyed they would no longer exist. And what would increase the size of the universe? And whence might it come? And where indeed might it perish, since nothing is empty of them? But these themselves exist, and passing through one another they become different at different times —and are ever and always the same.”³¹

More than one commentator has noticed the similarities between Empedocles’ idea of love and strife and modern physics, including one who claims that Empedocles

expresses the idea that the sum of all things in the universe is constant. Since we know that matter can be transformed into energy this is not quite correct, but we may disregard this subtlety because Empedocles made no distinction between matter and energy. The basic idea still holds in view of Einstein’s principle of mass-energy conservation. Moreover, Empedocles’ cosmology can be thought of as an anticipation of modern cosmology if we identify the state of complete unity with the hypothetical state of all matter being condensed into energy at the moment of the Big Bang. Since our universe is presently expanding, according to Empedocles, we would then live in the age of (rising) Strife.³²

It was from Empedocles that both Plato and Aristotle learned that the universe was composed of four fundamental elements—earth, air, fire, and water. In his *Timaeus*, the only Platonic text familiar to the medieval world, Plato claims that “Empedocles had attempted to explain the composition of all natural objects as being made up of four units—earth, water, air, and fire.”

Plato may have understood the concept differently. Hopkins claims that Plato felt that earth, air, fire and water “can have no unitary character, [and] that they cannot be considered ‘elements,’ for they easily pass into one another, all being different appearances of the substratum matter,” but Empedocles was the source of his idea of the elements just as it was for Aristotle, Plato’s pupil.³³

Aristotle’s understanding of natural objects was more sophisticated than the views of the atomists. Instead of a world made up of little indivisible balls bumping into each other, Aristotle believed that “As forms are to matter, so also is Soul to Body.”³⁴ Aristotle nonetheless paved the way for alchemy when, in explaining the four “elements” of Empedocles, he wrote

There is nothing strange in supposing that brass may lose some of its elementary earth and partake more of the higher elements such as fire. By changing to high-

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er qualities, brass may be changed into gold for the quality of gold is independent of the metallic substance which is its support.⁵⁵

Plato and Aristotle furnished the philosophy upon which alchemy rose, but the alchemists twisted notions like *telos* into an unrecognizable mumbo jumbo when they

visualized the metals as striving to become as perfect as possible, to become white as silver or even yellow as gold—so perfect that goodness and light should abound more and the “sun metal” should illustrate the triumph of perfection over the primitive evil of the common “earth metals.”⁵⁶

By claiming that “all nature is living,” Empedocles opened the way for alchemy, because according to the view which Newton expresses in his treatise on “the vegetation of metals,” metals were striving to finish their peculiar cycle, tending toward perfection as fire seeks its source, toward the *entelechy* which is gold. And the gold is then able to produce a portion of lead or copper which again tends to complete the cycle, ending with the final gold.⁵⁷

Mercury was a crucial element in alchemical experiments. Newton's biographers have suggested that his mental breakdown in 1693 may have been the result of mercury poisoning. Referring to his gray hair, Newton joked with Conduitt that it was “the Experiments he made so often with Quick Silver, as if from Hence he took so soon that Colour.”⁵⁸ In order to obtain the mercury of the philosophers from ordinary quicksilver, Newton would dissolve it in nitric acid, exposing himself to enormously toxic vapors. When Newton's hair was tested posthumously, it was found to have 40 times the mercury content of the average person living in the 20th century.

Mercury was crucial to the alchemical art because it was a substance that undermined the medieval concept of substance which the Calvinists and Cartesians found so repugnant. In addition to the philosopher's stone, all alchemists sought the universal *alkahest* or universal solvent. Mercury was essential to achieving both, because as Synesius put it:

Mercury robs all metals of their appearances. Just as wax takes the color which it has received, so mercury whitens all metals and attracts their souls. It refines them and is diffused. Being thus properly disposed and having in itself the principle of liquidity, when it has undergone decomposition, it changes colors everywhere.⁵⁹

In the 14th century, Pseudo-Arnaldus of Villanova claimed that “All metals are resolved into mercury. Therefore, mercury is the first matter of all the metals . . . this reduction into the first matter is easy and transmutation is possible and feasible.”⁶⁰ Avicenna claimed that “Mercury is the mother of the metals . . . She receives in her womb what is of the same nature as herself. She rejects all others because her nature rejoices more with

a like than with a strange nature."⁶¹ Mercury "takes all forms."⁶²

Mercury was considered a spirit, and alchemy consisted in "spiritualizing" base metals, which is to say, raising them to their highest form, which was gold. A spirit was said to be "accidental" because it does not exhibit its properties until it is associated with metals. To associate spirits with metals, metals had to be made as pure as possible by subliming mercury upon them. The alchemical process could be said to occur when

Earthy metals are raised to the dignity of gold and silver by impressing upon their common "bodies" some volatile ennobling "spirit"; the effect of which was manifested in color, which color was the determining characteristic of the higher metal—just as men are distinguished not by their common bodies but by their higher spiritual qualities.⁶³

The notion that "color was the determining characteristic of the higher metal" brings us back to the Egyptian craftsmen who were both dyers and workers in metal. Conflating the two crafts, the alchemists, who believed that substance was as fluid as mercury or that mercury itself made all substance fluid or spiritual, thought that in changing the color of the metal, they changed the essential properties of the metal as well, or as Zosimus put it:

the material body of gold is nothing; that the quality of gold is independent of the metallic substance which is the support of the spiritual quality and that this spirit—this higher spirit—is gold; that when one possesses a material in which the gold quality resides, just as one might possess the essential coloring principle of a dye, he thereby has in hand what was later called the philosopher's stone and one can then "tint into gold"; and it is in this way that one can make true gold.⁶⁴

If we substitute value for color in the previous passage, we can see that alchemy was close to the theory of paper money. Or, viewed in another way, alchemy was promoting deception. The connections become clearer when we learn that the alchemist considered mercury "the principle of liquidity."⁶⁵ Mercury, in other words, made the alchemist lord of matter by allowing him to defeat the notion that being became manifest in intractable substance. According to the old dispensation, things were what they were. Their substance was immutable and ineradicable. By perfecting mercury as the universal alkahest, the alchemist set out to prove that there was ultimately no stability to being or substance. Being could now "evolve" from lead into gold through the spiritualizing power of mercury.

Being was now more closely correlated to color than some ineffable philosophical substance. The emphasis on color in alchemy reveals the influence of the Egyptian craftsmen, who felt that transformation of metals created a "fixed tincture." "Colors with the Egyptians were also spirits and spiritual. . . . The Egyptian alchemistic theory conceives of yellowness as a spiritual power which overcomes the earthy, 'sublimates' it, 'washes away

all its sins' and brings it forth as 'higher' in the scale of metals."⁶⁶ Mercury changes copper to silver, but sulphur then turns silver yellow, which is another word for gold. When an overplus of yellow is brought about in this transformation, the result is a "fixed tincture," which can "spare its excess yellow as a seed to change other metals into gold."⁶⁷ That permanent tincture is known as the "ios of gold" or the "philosopher's stone," which can now turn common metals into gold. It is like mercury; it is, in fact, a super-mercury which is the nullification of Aristotelian substance or the notion of limit which the Cartesians and the Calvinists found so repugnant, be it in the Eucharist, the world of nature, or the world of finance. The literary figure who symbolized the new world of the alchemist was Faust, who provided, as Hopkins put it, "the alchemistic form of Aristotle's entelechy, the final cause which can reproduce itself"⁶⁸ through the philosopher's stone.

Westfall claims that "Newton's alchemical activity included his personal introduction into the largely clandestine society of English alchemists."⁶⁹ One of his main contacts was Robert Boyle, an alchemist who is often referred to (in English-speaking circles at least) as the father of modern chemistry. Boyle, in turn introduced Newton to the Hartlib circle, named after Samuel Hartlib as well as Philalethes Starkey, the pseudonym of Ezekiel Starkey, the man who translated the seminal Rosicrucian tract, *Die Chemische Hochzeit von Johannes Rosenkreuz* into English. Newton had read *The Chymical Wedding* and had made notes on it.⁷⁰ The Hartlib Circle believed that:

life rather than mechanism stands at the very heart of nature. All things are generated by the conjunction of male and female; metals differ in no wise from the rest of nature. Like everything else, metals grow in the womb of the earth—rather metal grows, for if we speak in strict terms, alchemy did not recognize more than one metal. That one, of course, was gold, the product that nature realizes when nothing interrupts her normal gestation. The other "metals," abortions of nature, are potential gold that has failed to reach maturity. Alchemists were trying to complete what nature had left incomplete. They were growing gold.⁷¹

Like the mechanical philosophy of Descartes, alchemy dreamed of an algorithm which would "reveal the ultimate secrets of nature."⁷² More precious than the philosopher's stone, however, was alchemy's "all embracing philosophy of irresistible attraction."⁷³ It is easy to see how a devotee of the mechanical philosophy would be attracted to alchemy, even though the two philosophies contradicted each other. Looked at from the antisubstantial point of view, the two complemented each other. Cartesian philosophy created a world of dead matter with no purpose, entelechy or telos, but alchemy, on the other hand, claimed that "All that happens in nature is the work of active principles, which passive matter serves as a mere vehicle."⁷⁴ Newtonian physics was born at the intersection these contradictions.

Newton's involvement in alchemy has been a considerable source of embarrassment for the Whig historians, who have either ignored it as *infra dig* (with circular arguments like, "no respectable historian takes Newton's involvement with alchemy seriously") or have tried to explain it away by associating it with the later science of chemistry. It was only in 1936 that the real story of Newton's involvement in alchemy began to emerge, and it would not have emerged even then if the economist John Maynard Keynes hadn't purchased a collection of Newton's papers which Sotheby's was offering for sale. The same mss. were considered as having "no scientific value" when Cambridge University turned down the option of buying them 50 years earlier.⁷⁵

Through his alchemical studies Newton became inducted into what amounted to a secret society, which preserved "a Masonic secrecy" in its methods and techniques. As a result of this association, Newton "adopted a blind and misleading language," which was deliberately deceptive, because alchemy itself was intrinsically deceptive. Recipes in the Leyden papyrus, for example, explain how "to change the color of the cheaper metals or alloys so that they will *seem* to be silver or gold (my emphasis)."⁷⁶ The same manuscript explains "a method of producing from a little gold an increased amount of alloy of golden color." Other formulae explain how "to augment gold" as for example when the alchemist takes "Thracian Cadmia [alloy of copper, zinc, and lead] in thick crusts or the white kind and mix it with misy [green vitriol] and Sinope Red [red iron oxide] equal parts with the gold. Let the gold be thrown into the cupel and become bright. Scatter on some of each; allow to cool," he will find that "gold will be doubled."⁷⁷

Given instructions like this it should come as no surprise that alchemists were in great demand as coiners (something which would later become significant in Newton's life) because their techniques gave the illusion of doubling the amount of gold while actually engaged in debasing the currency. The adepts of this society were sworn to secrecy, not allowed to discuss their experiments in anything but the most controlled environment, which is to say, person to person or adept to adept. Newton was critical of Boyle for discussing alchemical matters in letters, which might be intercepted and fall into hostile hands. In order to keep his alchemical studies a secrete, Newton adopted an alchemical pseudonym—*Jeova sanctus unus*, which was both an anagram of his name in Latin, *Isaacus Neuutonius*, as well as a covert proclamation of his Arian theology. As his fame spread, Newton became the recipient of important alchemical treatises as well as visits from a train of mysterious strangers who would confer with him at crucial moments in his career, the stranger who appeared in 1696 shortly before Newton was appointed warden of the mint, being the most influential for his career as a civil servant.⁷⁸ Alchemy was the basis of his friend-

ship with John Locke, another pillar of the English Enlightenment, as well as with Fatio de Duillier, one of his major acolytes. Newton was familiar with the writings of the English alchemist George Ripley, and alchemical writings made up one-tenth of Newton's total library.⁷⁹

Even those biographers of Newton who are familiar with his involvement in alchemy refuse to see the implications of that involvement. After first playing up Newton's interest in alchemy, Westfall then tries to play it down: "Newton's interest in alchemy" was "a manifestation of rebellion against the confining limits that mechanistic thought imposed on natural philosophy."⁸⁰ The explanation then turns sexual: "Mechanical philosophy had surrendered to his desire, perhaps too readily. Unfulfilled, he continued the quest and found in alchemy and in allied philosophies a new mistress of infinite variety who never seemed fully to yield."⁸¹

Even after describing Newton's "career as student usurer"⁸² as well as the "extensive business in usury" which Newton "conducted among his fellow sizars,"⁸³ Westfall claims that Newton's involvement in alchemy, which was after all based on a desire to increase gold, was somehow immune to what Vergil called the "*Auri sacri fames*," the cursed lust for gold, when he writes:

Nothing whatever in the vast corpus of Newton's alchemical manuscripts even hints that gold making in the vulgar sense of the phrase ever dominated Newton's concern. . . . Truth and truth alone held that power over him. . . . To the great figures and monuments of the alchemical tradition, the men and works that Newton studied, Truth was also the goal of the art.⁸⁴

Westfall quotes Elias Ashmole, who "insisted . . . gold making was the lowest use to which the adepts applied their knowledge," as when he wrote that:

He to whom the whole Course of Nature lyes open, rejoyceth not so much that he can make Gold and Silver, or the Divells to become subject to him, as that he sees the Heavens open, the Angells of God Ascending and Descending, and that his own Name is fairely written in the Book of life.⁸⁵

Newton said much the same thing when he wrote: "For alchemy tradeth not with metalls as ignorant vulgars think . . . but rather to profit & to edification including first the knowledge of God . . . to teach a man how to live well & to be charitably affected helping o' neighbors."⁸⁶

In claiming that "The philosophical tradition of alchemy had always regarded its knowledge as a the secret possession of a select few who were set off from the vulgar herd by their wisdom and the purity of their hearts," Westfall fails to see anything suspicious. The notion that the alchemists were lying whenever they spoke to non-alchemists seems not to have occurred to him. This ignores the most fundamental fact about alchemy. Whatever got put into writing was ipso facto part of the exoteric truth and,

therefore, not really central or important or even an accurate account of what alchemy was about. Exoteric truths were intended to befuddle *hoi polloi* into thinking that alchemy was somehow a noble enterprise. Adepts in the alchemical tradition also knew that they had to distinguish between the esoteric truths, which did not get put down in writing (or if they did only in a coded language which only the adept could understand) and exoteric utterances of the sort Ashmole and Newton related above. If Newton said that alchemy was about searching for the truth, it was most certainly a statement intended for people who were not adepts. The adepts were interested in transforming baser metals into gold because gold was money and money was then and has been ever since another word for power or force, the central concept of what would eventually become Newtonian physics.

Because Newton was an alchemist and bound by the alchemical code of secrecy, he could never be open about the alchemical elements he smuggled into the *Principia*. He said as much to Boyle when he wrote:

But yet because of the way by which [mercury] may be so impregnated [with metallic particles], has been thought fit to be concealed by others that have known it, & therefore may possibly be an inlet to something more noble, not to be communicated without immense damage to the world if there should be any verity in the Hermetick writers, therefore I question not but that the great wisdom of the Noble Author will sway him to high silence till he shall be resolved of what consequence the thing may be either by his own experience, or the judgment of some other that thoroughly understands what he speaks about, that is of a true Hermetic philosopher, whose judgment (if there be any such) would be more to be regarded in this point than that of all the world beside to the contrary, there being other things beside the transmutation of metals . . . which none but they understand.⁷⁷

The first rule of alchemy was “high silence.” Because of Newton’s deep involvement in alchemy, duplicity was going to be an integral part of any Newtonian system. In order to ensure the credibility of his system among the scientific elite of his day, Newton had to espouse the mechanical system as promoted by Descartes, but because this system was directly at odds with the alchemical principles at the heart of the *Principia*’s cosmology, Newton had to resort to subterfuge. Westfall notices the contradiction between the two systems, but refuses to see any subterfuge:

In the mechanical philosophy, Newton had found an approach to nature which radically separated body and spirit, eliminated spirit from the operations of nature, and explained those operations solely by the mechanical necessity of particles of matter in motion. Alchemy, in contrast, offered the quintessential embodiment of all the mechanical philosophy rejected. It looked upon nature as life instead of machine, explained phenomena by the activating agency of spirit, and claimed that all things are generated by the copulation of male and female principles.⁸⁸

The crux of the alchemical tradition is that circular or perfect motion comes from the interaction of opposites. Any alchemical system required the "copulation" of two opposing forces, i.e., the masculine principle must be combined with the feminine principle to produce circular, i.e., perfect motion. Newton stated the obvious in his alchemical writings (but not in the *Principia*) when he wrote:

A double mercury is the sole first and proximate matter of all metals, and these two mercuries are the masculine and feminine semens, sulphur and mercury, fixed and volatile, the Serpents around the caduceus, the Dragons of Flammel. Nothing is produced from masculine or feminine semen alone. For generation and for first matter the two must be joined.⁸⁹

Alchemy was the source of Newton's cosmology, but in order to be taken seriously by the scientific establishment of his day, which was Cartesian and materialist to a man, Newton had to disguise the real source of his cosmology. Newton had recourse to deception because he was an alchemist, but he perpetrated his deception in two ways: through mathematics and through an appeal to the atomism of the mechanical philosophy which disguised the "occult" or alchemical source of both inertia and gravity:

Newton . . . never ceased to be a mechanical philosopher in a fundamental and important sense. He always believed that particles of matter in motion constitute physical reality. Where mechanical philosophers of strict persuasion insisted that particles of matter in motion alone constitute physical reality, however, Newton came rather early to find those categories too confining to express the reality of nature.⁹⁰

Deception was also necessary to obscure the contradictory relationship between the two parts of Newton's cosmology. To deal with the second topic first, "the mechanical philosophy insisted on the inertness of matter" whereas "alchemy asserted the existence of active principles in matter as the primary agents of natural phenomena."⁹¹ Newton tried to reconcile this contradiction in his manuscript on "The Vegetation of Metals," in which he claimed that "mechanical science had to be completed by a more profound natural philosophy, which probed the active principles behind particles in motion."⁹² Chemicals, in other words, didn't act like little ball bearings bumping into each other. Elements, it turned out had "natures" which sometimes attracted and sometimes repelled each other. Or as Newton put it: "Some fluids (as Oyle and water) though their pores are in freedome enough to mix with one another, yet by some secret principle of unsociableness they keep asunder."⁹³

Newton had reached an impasse. There was no way to reconcile the mechanical philosophy with his alchemical studies because they were like "Oyle and water," which is to say, "by some secret principle of unsociableness they keep asunder."⁹⁴

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Gradually, alchemical concepts began to take up crucial positions in the cosmos that Newton was positing. Just as a “secret principle of unsociableness” . . . prevented certain substances mixing with others,” so too the law of inertia claimed that bodies were fundamentally unsociable, which is to say, they would all go off on their own separate ways unless some other greater force were to act on them. That greater force was known as gravity, an active principle of “attraction” which kept the universe from falling apart or being torn apart by the “unsociableness” of inertia. The similarities have caused one Newton scholar to say that “Newton could not have visualized attraction at a distance had it not been for his alchemical work.”⁹⁵ The *Principia* brought all of the disparate strands of Newton’s intellectual life together. It was a work of “alchemical cosmology.”⁹⁶

Endnotes

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- 3 Michael White, *Isaac Newton: The Last Sorcerer* (Reading, MA: Addison-Wesley, 1997), p. 216.
- 4 Westfall, p. 105.
- 5 Westfall, p. 141.
- 6 Westfall, p. 154.
- 7 Westfall, p. 142.
- 8 Westfall, p. 382.
- 9 Westfall, p. 154.
- 10 Westfall, p. 459. See also White.
- 11 David Berlinski, *Newton’s Gift: How Sir Isaac Newton Unlocked the System of the World* (New York: The Free Press, 2000), p. 99.
- 12 Berlinski, p. 102.
- 13 Berlinski, p. 103.
- 14 Berlinski, p. 128.
- 15 Berlinski, p. 119.
- 16 Berlinski, p. 129.
- 17 Berlinski, p. 135.
- 18 Westfall, p. 472.
- 19 Westfall, p. 499.
- 20 Berlinski, p. 140.
- 21 Berlinski, p. 141.

22 Berlinski, p. 142.

23 Westfall, p. 509.

24 John Calvin, "On the Reality of Christ's Body," *Institutes of the Christian Religion*, 2 vols, ed. John T. McNeill, transl. Ford Lewis Battles (Philadelphia: Westminster Press, 1960), 2:1400. Calvin exclaims "Away, then, with this stupid fiction which fastens both men's minds and Christ to bread."

25 Anne Gardiner, personal correspondence.

26 [Pierre Bayle], "Avis au lecteur" [unpaginated] in *Recueil de quelques pieces curieuses concernant la Philosophie de Monsieur Descartes* (Amsterdam: Henry Desbordes, 1684).

27 Westfall, p. 41. "In Lincolnshire, the 16th and 17th centuries witnessed a steady concentration of land and wealth with a consequent deepening of social and economic distinction. The Newtons were among the minority who prospered."

28 Anne Barbeau Gardiner, "A Tale of a Tub and the Great Debate over Substance," in *Swift as Priest and Satirist*, ed by Todd C Parker (Newark, University of Delaware Press, 2009), pp 123-146.

29 Ibid, 140-42.

30 Malebranche cited in Louis de la Ville, [pseudonym of Louis de Valois, S.J.], *Sentimens de M Des Cartes touchant l'essence & les proprietiez du corps, opposez a la doctrine de l'Eglise et conformes aux erreurs de Calvin, sur le sujet de l'Eucharistie* (Paris: Estienne Michallet, 1680), 145.

31 Anne Barbeau Gardiner, "Pierre Bayle, Louis de Valois, and the Convergence of Cartesianism and Calvinism in the Late 17th Century," unpublished paper given at a conference on the 18th Century..

32 Ibid.

33 Philip Mirowski, *More Heat Than Light: Economics as Social Physics, Physic's as Nature's Economics*, (Cambridge: Cambridge University Press, 1989), pp. 16-7.

34 Berlinski, p. 104.

35 Mirowski, p. 17.

36 Mirowski, p. 28.

37 Ibid.

38 Mirowski, p. 35.

39 Mirowski, p. 98.

40 Reginald Garrigou-Lagrange, O.P., *Providence* (St. Louis, MO: B. Herder Book Co., 1937), p. 27.

41 Garrigou-Lagrange, p. 29.

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43 White, p. 303. Cf. Gottfried von Leibniz, *Die Philosophischen Schriften* Vol. 3, (Berlin : Weidmann 1875-1890), pp. 328-9.

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- 44 Westfall, p. 196.
- 45 Arthur John Hopkins, *Alchemy: Child of Greek Philosophy* (New York: Columbia University Press, 1934), p. 52.
- 46 Hopkins, p. 55.
- 47 Hopkins, p. 7.
- 48 Hopkins, p. 2.
- 49 Hopkins, p. 27.
- 50 Thomas Nierem, *Presocratic Greek Philosophy*, http://www.wizanda.com/content/greek_philosophy.pdf, p. 13.
- 51 Nierem, p. 14
- 52 Ibid.
- 53 Hopkins, p. 16.
- 54 Hopkins, p. 21.
- 55 Hopkins, p. 22n.
- 56 Hopkins, p. 37.
- 57 Hopkins, p. 27.
- 58 Ibid.
- 59 Hopkins, p. 68.
- 60 Hopkins, p. 165.
- 61 Hopkins, p. 119.
- 62 Hopkins, p. 79.
- 63 Hopkins, p. 69.
- 64 Hopkins, p. 70-1.
- 65 Ibid.
- 66 Hopkins, p. 120.
- 67 Ibid.
- 68 Hopkins, p. 122.
- 69 Westfall, p. 286.
- 70 Westfall, p. 288.
- 71 Westfall, p. 20.
- 72 Westfall, p. 22.
- 73 Ibid.
- 74 Ibid.
- 75 White, p. 3.
- 76 Hopkins, p. 62.
- 77 Hopkins, p. 63.
- 78 Westfall, p. 289.
- 79 Westfall, p. 292.
- 80 Westfall, p. 301.
- 81 Ibid.
- 82 Westfall, p. 406
- 83 Westfall, p. 76. In 1695, Newton added his name to a list of luminaries

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willing to lend St. Catherine's College money for a construction loan. The man who began his career at Cambridge as a student usurer was now in position to lend the College money, along with a list of other illustrious Whig magnates.

84 Westfall, p. 298.

85 Ibid.

86 Ibid.

87 Westfall, p. 309.

88 Westfall, p. 299.

89 Ibid.

90 Westfall, p. 301.

91 Westfall, p. 209.

92 Westfall, p. 307.

93 Ibid.

94 Ibid.

95 White, p. 206.

96 Westfall, p. 209n.

Chapter Forty

Newton and the Capitalist Universe

Newton might have remained in this quandary forever, but the astronomer Edmund Halley, discoverer of the eponymous comet, took the bull by the horns when he placed the issue of the inverse square law and celestial motion before the Royal Society in January 1684. Hooke claimed he had demonstrated the connection, but to no one's satisfaction. Halley claimed that Hooke had tried and failed. The ball was now in Newton's court, and when Halley realized that Newton had the answer, he devoted himself full time to becoming Newton's intellectual midwife, the man who collaborated most intimately with Newton in bringing the *Principia* into the world.

The *Principia* was the turning point in Newton's life. Until Halley took charge of the publication of the *Principia*, Newton's intellectual life consisted of aborted and unfinished projects in both mathematics and alchemy, most of which were at odds with each other. With Halley's help, Newton was now finally able to bring an undertaking to a successful conclusion. The *Principia*, all 550 pages of it, was completed in a mere 18 months, suggesting that most of the intellectual work had already been worked out. The challenge the *Principia* posed was more rhetorical than scientific. Newton's problem as of the completion of Book II was that the gaps between the principal parts of the *Principia*—the mathematical, the alchemical, and the Cartesian—were too big to ignore. As a result, Newton had to recast his book and throw smatterers like Hooke off the scent. Newton needed to “make . . . it now difficult for unskillful men to see the Analysis by which those Propositions were found out.”² So he recast the prose of Book II as the mathematical puzzle of Book III and tried to disguise his cosmology under the guise of what looked like a book of classical geometry.²

But disguising the plagiarism from Hooke wasn't the main problem. The deeper problem was alchemy, in particular “the basis upon which his ideas of subatomic forces operated was too obviously derived from alchemy and the hermetic tradition—he could not risk exposing his sources.”³ The *Principia* was an “epoch-making book,” but it was also a skillful exercise in sleight of hand, which used mathematics to distract the reader from its two incompatible philosophies, Cartesian mechanism and alchemy.

Newton had reason for concern about how the concept of gravity, a universal attraction, would be received. After both Huygens and Leibniz accused him of importing occult agents into what purported to be an exercise in the mechanical philosophy, Newton inserted his famous pronounce-

ment "*hypotheses non fingo*" into the 1712 edition of the *Principia*. By that point in his career, Newton's apodictic pronouncements had become powerful enough to silence murmurings.⁴

Alchemy was full of mythological forces, which is to say, attractions and repulsions, or as Newton would say, sociableness and unsociableness. Venus, which was both a planet and the metal copper, would fall in love or find itself irresistibly attracted to, Mercury, which still retains its identity as both planet and metal in the common parlance, and "copulation" would bring forth a new compound. It's a bit like saying that Sodium was so attracted to Chlorine that the two fell in love, copulated and produced table salt.

Or as Newton put it:

Dissolve volatile green lion in the central salt of Venus and distill. This spirit is the blood of the green lion Venus, the Babylonian Dragon that kills everything with its poison, but conquered by being assuaged by the Doves of Diana, it is the Bond of Mercury. Neptune with his trident leads the philosopher into the sophic garden. Therefore Neptune is the mineral watry menstruum and the trident is the ferment of water similar to the caduceus of mercury with which mercury is fermented, that is, the two dry Doves with the dry martial Venus.⁵

The Newtonian system is not, as Leibniz claimed, a return to scholasticism but rather a return to paganism. The Newtonian system gave new life to the English ideology, but the English ideology had always been involved in magic. A direct line of intellectual influence connects Newton to Robert Boyle, to Samuel Hartlib to Robert Fludd to Francis Bacon to John Dee, which makes the geneology of Jesus at the beginning of St. Matthew's Gospel look vague by comparison.

Newton refined Dee's magic down to its two basic principles, love and strife, and of the two, strife or inertia was the more basic. The notion that strife is the fundamental principle of the universe would become the fundamental belief of the English Ideology. If we substitute the more modern economic term "competition" for strife we can see that Newton established the fundamental principles for modern English Capitalism as well.

Newton's application of the inverse square law to celestial motion, bolstered by Flamsteed's calculations, eventually swept all criticism before it. Newton's *Principia* "took Britain by storm" and became overnight "the reigning orthodoxy among natural philosophers."⁶ But the publication of *Principia* was more than just a contemporary phenomenon. It was the culmination of a process which began with Copernicus 150 years earlier. Once the implications of the Newtonian system became clear, they necessitated a different picture of the universe in the mind of European man. Olsen explains the change which occurred when motion was disconnected from *telos*. In the new universe which Newton claimed to have deduced from the

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inverse square law:

The idea that the world was created for a purpose—or humans freely to cooperate with and imitate God—recedes before the idea that we are tinkers trying to discover how the world works, its secrets, to the goal of domination. To reformulate one of Alasdair MacIntyre's ideas, life is less and less medieval, the dramatic story of a quest, and more and more modern and exploitative, the story of a conquest. Contemplation recedes in the face of busyness, practice replaces theory, will trumps reason. Here, *in nuce*, we have the appearance of the isolated of disassociated, what is now called the "unencumbered" individual.⁷

Newton's treatise inaugurated a decisive break with the Platonic and Aristotelian understanding of motion so prevalent in the early and middle Medieval period. The image of a universe in which motion had no entelechy or intrinsic telos would have profound theological and economic implications. Werner Heisenberg claimed that "the mechanics of Newton and classical physics assumed that God can and must be bracketed as a preface to any description of the world."⁸ Gone were the distinctions between natural and violent motion and any persistent reference to cause other than the efficient. Nature was now under control: scientists could predict its every motion.

The disappearance of substance was one of the most significant changes wrought by the new cosmology. Its disappearance required a new image of the universe. Under the old dispensation, God could be referred to as "like the ocean, sustaining those who in all confidence surrender themselves up to Him and do everything in their power to follow His inspirations as a ship will follow a favorable breeze."⁹ Under the new dispensation a committed Newtonian like Jonathan Edwards would compare God to a man dangling a spider over a fire and conclude, "You [i.e., the man/spider] have nothing to stand upon."

The image of the universe had been changed from one compatible with the gospel, based on Aristotle, to one antithetical to the gospel, based on Empedocles. Newton was familiar with Empedocles both through his alchemical research and through his exposure to classical thought at Cambridge University, where Aristotle was the basis of the curriculum. Aristotle got the idea of the four elements from Empedocles, but his conclusions were radically different—as different as philosophy is from magic.

Newton's break with the classical world lay in his understanding of motion. Under the old dispensation, "Motion, in its most basic sense, is passage from potency to act . . . the identification of *telos* is integral to his understanding of motion. If there were no *telos*, there would be no motion for the *telos* is the reason for the motion. Motion is never for its own sake, but for the attainment of some end or goal."¹⁰

Under the old dispensation, the Trinity was a form of motion. In fact,

the Trinity, which “was the primary motion from the perfect emanation of God from himself and to himself,”¹¹ became the template which impressed itself on the motion of the universe. Because Newton was a Unitarian he could not understand this form of motion, and so he banned it from the universe he created when he wrote the *Principia*. A Unitarian who contemplates the universe will not find in it “relations imitating those internal to the Trinity itself.”¹² In a Unitarian universe,

Nature becomes external to God, and God external to nature, and the relations between all things are external. God is transcendent to, but not immanent in, nature. All worldly relations become “mechanical,” as if the universe were a vast machine. The constituting parts have no more interiority than machine parts.¹³

For Newton,

the laws of nature and the “final ends” of which he speaks in the General Scholium are not immanent in nature, part of creation’s ontology, but merely imposed from without by a God whose rule is supreme [much like the English monarch after the break with Rome]. A theological interpretation of the laws of nature within this voluntaristic context would see them not as something integral to the universe, but as measure of an otherwise inscrutable divine will. The early scientist [like subsequent Whig propagandists] is therefore charged with forever confirming the constancy of the laws and the activity of nature by repeated experimental practice in order to judge the currents in the divine will as it replenishes a decaying creation.¹⁴

This flows quite naturally from the attack on substance launched by the Cartesians and the Calvinists. If beings have no essence or entelechy, then their disposition is purely a function of will, in this case, the divine will or external force. What God lacks as creator, he must make up as ruler, by working overtime imposing His will on a creation that has no internal purpose of its own. Simon Oliver claims that: “Newton held a view of a marginalized God in such a way that motion becomes not the means of participation in the divine life, but a purely incidental aspect of creation which precipitates a universe of conflictual stasis.”¹⁵

It’s difficult to see how a God who now must order everything according to his sovereign will (as opposed to His creative power) is a “marginalized God,” but it’s certainly easy to see how “conflictual stasis,” which is to say conflict between love and strife, or inertia and gravity, would then replace the Trinity as the fundamental motion of the universe.

Both were taken from Empedocles via the alchemical tradition. Circular or perfect motion derives from the reciprocal action of love on strife and strife on love. That is the Newtonian system in a nutshell. Both Huygens and Leibniz were correct in claiming that Newton’s cosmology was based on occult forces, but both erred in thinking that he derived these forces from scholasticism. The source was older than that. It was Empedocles, and

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Newton most probably learned about Empedocles via alchemy.

As with the demise of the notion of substance, the demise of the traditional understanding of motion paved the way for the rise of force as the principal cause of motion. In Newton's universe there is no ontological basis for any motion. Motion is purely a function of external force: "following Newton relation becomes an extrinsic category governed by force, and things are understood as constituted in relation to themselves, so to speak in their solitude."⁶

Using the inverse square law as his cover, Newton proposed a radically new universe which was congruent not with the Catholic/Aristotelian view but rather an expression of alchemical principles, the experience of lived English Capitalism and Whig political aspiration, all rolled up in one deliberately obscured package. Central to Newton's vision was a new definition of force, according to which: "a body was treated as the passive subject of external forces impressed upon it instead of the active vehicle of force impinging on others."⁷ After 20 years of pondering the matter, Newton concluded that any idea of force "internal to bodies" was incompatible with the principle of inertia. Since he chose to make inertia the fundamental principle of his universe, any idea that motion was caused by substance, ontology, entelechy or telos had to be banned. Once entelechy was banned, the only other source of motion had to be force.

The verdict is all but universal: the demise of entelechy, which is to say, substance endowed with purpose, led to the rise of force as the central element in the Whig universe which Newton created with the publication of the *Principia*. Oliver claims that "Newton prioritizes force rather than motion. . . . Newton's *Principia* focuses primarily on force as that which changes a state of motion or rest."⁸ Westfall claims that "Newton couched his refutation of relative motion in terms of causal consideration which made force central"⁹ and goes on to say:

Force is the causal principle of motion and rest. And it is either an external one that generates or destroys or otherwise changes impressed motion in some body; or it is an internal principle by which existing motion or rest is conserved in a body, and by which any being endeavors to continue in its state and opposes resistance. . . . Here was a view of matter intimately related to alchemical views—a passive mass animated by an active principle.²⁰

Newton derived his idea of "force" from his principle of inertia, the most fundamental principle of the universe. Newton's concept of inertia destroyed the classical universe which united Aristotle with Genesis. Once inertia, which specified that "Every body perseveres in its state of being at rest or of moving uniformly straight forward, except insofar as it is compelled to change its state by forces impressed" became the fundamental principle of the universe, the universe could no longer be relied upon as

having been created to bring about man's perfection through God's providence. Butterfield described inertia as "the great factor which in the 17th century helped to drive the spirits out of the world and opened the way to a universe that ran like a piece of clockwork."²¹ This change would have significant economic consequences.

Instead of seeing motion as resulting from a *telos* that is integral to nature, Newton saw all motion as the result of "competing and conflictual forces."²² The fundamental lesson derived from the Newtonian universe is that all motion results from "competitive conflict," or as Oliver puts it:

Newton's *vis insita* [i.e., gravity] and *vis inertiae* . . . describe motion as the outcome of competitive conflict rather than the outcome of a participative creation between a mover (which is more properly described as the cause of a motion) and a body's inner passive principle of change.²³

In the classical universe, motion is a function of being or the *telos* embedded in being. According to the principles of Aristotelian mechanics, bodies

possess within themselves a "natural principle for change" only with regard to their natural motion, which is defined not as the outcome of conflictual forces but as a cooperation between mover and moved, namely that which is the means of the attainment of their *telos* and is thus integral to their ontology.²⁴

Newton's Arianism played a crucial role in the universe he concocted because

within Newton's Arianism . . . divine motions . . . can only be the motion of an arbitrary and inscrutable divine will. Whereas for Aquinas the "motionless motion" of the divine emanation was able to provide the ontological basis and goal of all motion, for Newton, who has already discounted the possibility of relationality within the Godhead, motion can only be the effect of the imposition of divine volition.²⁵

In Newton's universe, bodies have no *telos* because they have no substance other than mathematically describable extension. As a result, all motion results from external force, which is ultimately attributable to arbitrary will.

The change in motion Newton wrought by making force the central concern of his physics would have profound political and economic implications. Once inertia became the fundamental principle of the universe, strife would become central to all subsequent expressions of the English ideology based on Newtonian physics. According to Adam Smith's reading of Newton, greed or self love is an instinct which is analogous to inertia in that each body in space seeks its own good without regard to any other body. Greed, which would lead to chaos, is held in check by competition, and the result is Smith's version of perfect motion, otherwise known as the "invisible hand" which assures that private vice is transformed magically

(or alchemically) into public good.

Charles Darwin's theory of evolution is another example of the English Ideology derived from Newton, which also claims that strife—or, as Darwin would say, competition for scarce resources leading to natural selection—is the fundamental principle of the universe. Darwin, like Newton, “frames no hypotheses.” He looks at nature and discovers that “strife” is its fundamental law.

Oliver claims that “Newton’s . . . like Aquinas’s understanding of motion . . . was accompanied by a very particular theological vision.” The same is *a fortiori* true of the economic systems which naturally flowed from these two very different universes. In the classical system, “all motion requires a mover.”²⁶ In his book *Providence*, Garrigou-Lagrange unpacks the meaning of motion by referring all motion to some *telos* or end. In the Christian universe—the one based on Aristotle but refined by the Scriptures—motion inspired by *telos* also implies providence. Animals move—they eat; they flee danger, and they reproduce—to preserve themselves and the species in existence. God, who is ultimately the source of all motion, “first of all sees to it that every creature receives whatever is necessary for the attainment of its end.”²⁷ A God who is all-good would not create creatures who have basic desires which cannot be fulfilled, something which would be the equivalent of God creating a world full of cows but no grass, but it is perfectly consistent for an employer who ascribes to the Whig universe confected by Newton and refined by Darwin to say to his employees that he can only pay them a subsistence wage by appealing to a universe whose most fundamental principle is strife or “competitive conflict.”

Both Heinrich Pesch, the German Jesuit economist, and Reginald Garrigou-Lagrange, the French Dominican theologian, share a view of motion which necessitates divine providence because their view of motion implies a *telos* or goal. As Pesch puts it:

If an infinitely wise God is the creator of the world and the author of human nature, then He must have endowed His work with a purpose in conformity with His wisdom. And he must also have established for his creatures with their various rankings a law suited to their nature, by which they are equipped with a rule for their existence in accord with their natural purposes. . . . It would in fact be impossible for an all-wise God to operate without a plan and to submit the created world to total anarchy. That plan is not merely known by God, but it is also willed by the highest Lawgiver insofar as a law, a *lex aeterna*, existed eternally in God; and it emerged in the temporal world just as the world itself arose in time. In irrational creatures this law emerges as the principle and norm of their movement and activity, as a natural law or instinct. In rational man, in accordance with his nature, it emerges as the natural light of reason by which he recognizes what we must do and ought not to do, as the Divine moral law which is destined to lead us to the goal intended by God in the way intended by Him.²⁸

This *lex aeterna* has economic implications, which Pesch brings out when he writes that:

We are always and everywhere bound by the destiny which God has established for the world. This destiny, however, requires that the earth with its treasures and energies will serve all, so as to provide us with nourishment, clothing, and shelter and to ensure our sustenance until God calls us to Him in our eternal home.²⁹

Adam Smith's view of providence is distinctly Newtonian; it is formed by the English capitalist milieu from which it arose. According to the worldview which Smith derived from Newton, the ultimate outcome of the economy is achieved not by human reason collaborating with divine Providence, but rather by conflicting forces resulting in circular motion. Like Newton, Smith must invoke occult forces to explain motion in his economic system, as when he tells us that:

The wealthy . . . are guided by an invisible hand to almost make the same kind of distribution of the necessities of life as would occur if the earth were divided up into equal parts among all of its inhabitants. Without being aware of it, they further the interests of society and make possible the increase in population. Even though Providence divided the earth among a few owners, it does not allow those whom it seems to have overlooked to go away empty; it did not forget them. The latter get their share of all that the earth produces. In those things which have to do with true happiness in human life, they are in no way worse off than those who seem to lord it over them. In bodily well-being almost all classes of people are equally well off; and the beggar who sits against a fence and suns himself has the security for which kings engage in combat.³⁰

In Smith's universe, the wealthy play the role that God plays in the traditional universe. In the classical universe proposed by Aristotle and refined by meditation on Genesis and the Gospels, motion implies providence, because as St. Thomas puts it, "the conception of the order of things to an end is strictly providence. . . . Providence is the conception in the divine intellect of the order of all things to their end; and the divine governance . . . is the execution of that order."³¹

In Smith's Newtonian Unitarian economy, Providence is no longer God's job; it has been delegated to the rich, who now administer wealth in an all-wise manner that rivals what God has done (badly, some might say) in the past. Providence is now best left to the rich, a concept which found expression in trickle-down economics. The Christian understanding of the universe, which claims that an all-good God could not create creatures with appetites which could not be fulfilled by the motions they inspire, is radically odds with the capitalist universe. In the Malthusian universe, which occupies a middle position between Newton and Darwin, God created a world full of cows who were increasing geometrically and were, therefore, constantly outstripping the food supply, which increased

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only arithmetically. The English ideology, which encompasses all of these thinkers, got its start with Newtonian physics, which was confectioned with an economic goal (or an economic background) in mind.

When it comes to rational creatures, the divine economy provided by providence is no less absolute, but it is administered in a different way. Man achieves his end by following reason; God does his part by meting out justice and mercy. The justice of God means that we will be given what we need to achieve our end; the mercy of God means we will be given a second chance if we fail. Taken together,

Providence and justice combine in this present life to give us whatever is necessary to reach our true destiny: that is, to enable us to live an upright life, to know God in a supernatural way, to live and to serve Him, and so obtain eternal life.³²

Divine Providence is a logical corollary of finality, because as St. Thomas puts it, "all things that exist in whatever manner are necessarily directed by God toward some end."³³ This is demanded by the principle of finality, which states that every agent acts for some end and the supreme agent for the supreme end known to Him, to which He subordinates all else. That end, as we saw when speaking of the love of God, is the manifestation of His goodness, His infinite perfection, and His various attributes.

In the Unitarian universe confectioned by Newton, God has been separated from His creation because there has been no Incarnation. God now rules over the universe much as William of Orange ruled over England, as an alien put on the throne not because of some natural motion, i.e., by right of inheritance, which is how James II ascended to that position, but by force, or, as the Aristotelians would say, by "violent motion." The God of the Newtonian Universe, like the Dutch usurper William of Orange who came to the throne during the Glorious Revolution which put the Whig oligarchs in power, rules the universe by his arbitrary will. He has no obligations to the beings he created; they are on their own, left to resolve any differences over the allocation of scarce resources by recourse to strife, "competitive conflict," or the economic system which came to embody those English virtues, namely, Capitalism.

The idea of finality is incompatible with the English ideology or the universe Newton confectioned out of it. The Newtonian concept of inertia (or strife, especially as refined by Darwin) is radically incoherent because:

If there were no finality in nature, if no natural agent acted for some end, there would be no reason why the eye should see and not hear or taste, no reason why the wings of the bird should be for flying and not for walking or swimming, no reason for the intellect to know rather than desire. Everything then would be for no purpose, and be unintelligible.³⁴

Conversely, a universe indifferent to man's desires (or actively thwarted

them through strife) would call God's goodness into question, which Newton does when he denies the Incarnation. Garrigou-Lagrange asks a number of rhetorical questions which bring out the absurdity of the English position: "Is man's natural desire, then, to remain a deception and without finality when the natural desire of inferior beings is not in vain?"³⁵ The idea of finality as expressed in providence finds expression in Scripture passages like Matthew 6:25, which claims that if God's causality reaches down to the most insignificant creatures, i.e., sparrows, it will certainly apply to man, who is the pinnacle of creation:

It is constantly asserted in the Old and New Testaments that the plan of Providence has been fixed immediately by God Himself, down to the last detail. His practical knowledge would be imperfect, were it not as far reaching as his causality, and without that causality nothing comes into existence.³⁶ . . . If there is order in the world of sense, a Providence for the birds of the air, much more so will there be order in the spiritual world and a Providence for the immortal souls of men.³⁷

The universe that Father Garrigou-Lagrange described is not compatible with the one concocted by Newton according to alchemical principles and then developed along economic lines by Smith and biological lines by Darwin. Newton believed in intelligent design; Darwin did not, but both believed that strife was the fundamental principle of the universe. As Garrigou-Lagrange points out, a universe in which chance is the norm, such as the Darwinian universe based on random mutation, is a universe based on self-contradiction. Chance cannot be the norm:

Shall it be said that, amid a large number of useless organisms, a fortunate chance has formed a select few capable of receiving life, with the result that these have been preserved while the useless ones have disappeared? Such is the evolutionist theory of survival of the fittest. But this would be tantamount to saying that chance is the first cause of the harmony prevailing in the universe and all its parts, and that, surely, is impossible. . . . To say, therefore, that chance is the first cause of order in the world . . . implies as a consequence the destruction of the essential and the natural, the destruction of all nature and of all natural law.³⁸

This brings us to the mendacity at the heart of the English ideology. Proponents of British empiricism claim with Newton that they frame no hypotheses, while at the same time smuggling covert occult principles into their systems. They subvert the notion of essence; they promote the destruction of substance; and then at the last moment, rather than accept the consequences of what they have wrought, introduce some mathematical *deus ex machina* or scientific "law" which saves the universe from the chaos which is the natural consequence of their subversion, and reintroduces an order which is totally concocted (or framed) and which turns out to be nothing more than a projection of the English economic status quo, which

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began with theft, onto the universe. The common denominator of the various projections of the English ideology which Newton, Smith, Malthus, and Darwin share is Capitalism, the economic version of strife, which is the fundamental principle of the universe.

Confronted by increasingly strident complaints from the continent which accused him of smuggling occult forces into his system, Newton responded by declaring apodictically, "*hypotheses non fingo*." Subsequent proponents of the English ideology would make the same rhetorical move, by claiming that "science" allowed them to view nature as it actually was, without any intervening conceptual framework. In reality, the proponents of the English ideology were doing nothing but projecting their own culture onto the very thing that needed to be explained. This is precisely the charge which Mirowski levels, when he claims that the physicists in question (and this certainly applies to Newton as well as the economists who imitated him) were guilty of "reconceptualizing the universe as a reflection of our social and somatic selves." In fact, Mirowski continues, "physicists have been doing just that for centuries."³⁹

In his book *The Origin of Wealth* (a play on the titles of both Smith's and Darwin's *magna opera*), Harvard professor Eric D. Beinhocker tells us:

Evolutionary theory and economics have a long and intertwined history. In fact it was an economist who helped spark one of Charles Darwin's most important insights. In 1798, the English economist Thomas Robert Malthus published a book titled *An Essay on the Principle of Population as it Affects Future Improvements of Society*, in which he portrayed the economy as a competitive struggle for survival and a constant race between population's growth and humankind's ability to improve its productivity. It was a race that, Malthus predicted, humankind would lose.⁴⁰

Darwin read Malthus's work and described his reaction in his autobiography:

In October 1838, that is 15 months after I had begun my systematic enquiry, I happened to read for my amusement, "Malthus on Population," and being well prepared to appreciate the struggle for existence which everywhere goes on from long-continued observation of the habits of animals and plants, it once struck me that under these circumstances favorable variations would tend to be preserved and unfavorable ones would be destroyed. The result would be the formation of a new species. Here then I had at last got the theory by which to work.⁴¹

Beinhocker explains the role that Malthus's views on economics played in Darwin's biology:

Darwin's great insight into the critical role of natural selection in evolution was thus inspired by economics. It was not long after Darwin published his *Origin of Species* that the intellectual currents began to flow back the other way from evolutionary theorists to economists. In 1898, the economist Thorstein Veblen wrote an article that still reads remarkably well today arguing that the economy is an

evolutionary system. Not long afterward, Alfred Marshall, one of the founders of modern economic theory, wrote in his introduction to his famous *Principles of Economics*, "The Mecca of the economist lies in economic biology."⁴²

So is economics really just evolutionary biology? Or is biology really just capitalist economics? Professor Beinhocker's explanation for this coincidence is not that great minds run in the same circles. No, his explanation is that "evolution is an algorithm."⁴³ In fact evolution is a "universal algorithm."⁴⁴ In fact, evolution is the fundamental algorithm of the universe. Hence it should come as no surprise that biology and economics should obey the same laws. Or as he puts it, "The same process that has driven the growing order and complexity of the biosphere has driven the growing order and complexity of the 'econsphere.'"⁴⁵

So, to answer the question we just posed, according to Professor Beinhocker, biology and economics are both expressions of the fundamental algorithm of the universe, which is evolution. Which means of course that economics is really biology. Or as Professor Beinhocker puts it,

Saying that economic systems are like biological systems does not tell us much that is scientifically useful. But saying that both economic and biological systems are subclasses of a more general and universal class of evolutionary systems tells us a lot. This is because researchers believe that there are general laws of evolutionary systems. Scientists consider certain features of nature universal. For example, gravity works the same way on earth as it does at the farthest reaches of the universe, and it works the same way on atoms, apples, and galaxies. Modern evolutionary theorists believe that, like gravity, evolution is a universal phenomenon, meaning that no matter whether the algorithm is running in the substrate of biological DNA, a computer program, the economy, or in the substrate of an alien biology on a distant planet, evolution will follow certain general laws in its behavior.⁴⁶

And what are these fundamental laws, common to both Darwin and Newton and economics? These laws are, you guessed it, love and strife, but, when it comes to Darwin, mostly strife. Professor Mirowski in his brilliant book *More Heat than Light* has shown convincingly that economics is in reality bad physics, and that the science of economics is ultimately traceable to Newton, or at least his system as it stopped developing at around 1850:

The mathematics that the social scientists employ and the mathematical physics that they used as their model are the mathematics and mathematical physics of 1850. . . . Their quantitative theories are treated with the unquestioning respect with which the physicists of a less sophisticated age treated the concepts of Newtonian physics.⁴⁷

In fact, the more one contemplates the similarities between physics and economics, the more

one rapidly discovers that the resemblances of the theories are uncanny, and

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one reason they are uncanny is because the progenitors of neoclassical economic theory boldly copied the reigning physical theories in the 1870s. The further one digs, the greater the realization that those neoclassicals did not imitate physics in a desultory or superficial manner; no they copied their models mostly term for term and symbol for symbol, and said so . . . the economic theory used in the West to discuss all manner of events and issues was essentially a simulacrum of the physics of the mid-19th century.⁴⁸

As we have indicated, the economics=physics equation is reversible, even if the very idea seems blasphemous.⁴⁹ This leads us to formulate a fundamental law of the history of English ideas. Whenever a thinker like Newton proposes a cosmology, especially when that proposal eschews all interpretive apparatus and is couched in apodictic terms like "*hypotheses non fingo*," he is really just projecting an economic system, in this case Capitalism, on to the universe. The same holds *a fortiori* true for Darwin and biology. Or as Professor Mirowski puts it:

It is no accident that the overall framework [of Darwinian natural selection, evolution, survival of fittest, etc] resembles the principle of least action in physics, or indeed, the principle of the maximalization of utility in neoclassical economics. . . . Resorts to metaphors of economic value are equally rife. They begin with Darwin's own admission that his reading of Thomas Malthus's *Essay on Population* prompted his synthesis.⁵⁰

Conversely, whenever an economist claims to be engaging in "scientific" economics, he is really engaging in bad physics, which is to say physics of the Newtonian sort which stopped being credible around 1850.

As further proof of the total reversibility of the physics=economics equation, Mirowski claims that natural philosophers, i.e., the physicists of their day, got their "common set of accounts" from "their economic milieu."⁵¹ In fact, the conservation principle, the idea which constitutes the notion of proof in Newtonian physics, is nothing more than a version of double entry book-keeping. If the resemblances which economics derives from physics are "uncanny," then those which physics derives from economics are "uncannier" still. Central to both physics and economics are the accounting techniques which grew up in the trading centers of Europe beginning with the city states in northern Italy. These accounting techniques accompanied physics step by step in its rise to the queen of the modern sciences, after the dethroning of theology, the science which held that title in the Middle Ages. In other words, physics is based on a conservation principle, which is ultimately a variation on an accounting technique, namely, double entry book keeping, according to which everything equals zero. This is true of both the inner structure of physics as well as its history. The "discovery" of energy conservation in the mid-19th century corresponds to "the rise of the world mercantile economy and the institution of the world industrial economy," not for arcane metaphysical reasons, but

because “experience with evolving economic structures altered the perceptions of the metaphor of value and in turn set off resonances with the attendant metaphor of motion.”⁵² Unsurprisingly, Mirowski finds it

striking how the major innovations in the theory of motion follow the changing center of gravity of the major trading axis of early modern Europe, stretching from northern Italy through the low countries and terminating in southeastern Britain. This is significant because that same traverse along the diagonal axis describes the earliest diffusion of modern accounting techniques. In the early 17th century, all these vectors pointed toward Holland, the merchant clearing house of Europe, the land of Simon Stevin and the adopted home of Rene Descartes.⁵³

The archaic Dutch word “*Actien*” referred simultaneously to “the earliest attempts to conceptualize the quantification of motion” and “the shares . . . of the newly chartered joint-stock trading companies.”⁵⁴ Similarly, Leibniz, who began his career as a mining engineer in the Harz mountains, was one of first modern thinkers who forged “extensive metaphorical connections . . . between the theory of motion and the theory of economic value.”⁵⁵ Leibniz created a reliable source of power by pumping water into a reservoir and then using the water when needed. In describing his invention, Leibniz wrote that “The water in the reservoir is worth its weight in gold and may be put to good use when enough has been collected.”⁵⁶ Leibniz was one of the first modern thinkers to “forge explicit links between money, the abstraction of economic value, and force, the abstraction of phenomenal motion.”⁵⁷ In the new universe which Leibniz was describing, God was no longer the uncaused cause of the schools. He was rather “like an architect who had to worry about his funds.”⁵⁸ With the Whig appropriation of Newton’s *Principia*, God became a parsimonious banker. With Darwin, God, who now went by the name of evolution, became a usurer, who lent force (or money) at a steep price and paid a starvation wage to his employees. With the rise of energy as the key concept in physics, the universe became a large bank, as when Balfour Stewart wrote that:

It is in fact the fate of all kinds of energy of position to be ultimately converted to energy of motion. The former may be compared to money in a bank, or capital, the latter to money which we are in the act of spending. . . . If we pursue the analogy a step further, we shall see that the great capitalist is respected because he has the disposal of a great quantity of energy; and that whether he be nobleman or sovereign, or a general in command, he is powerful only from having something which enables him to make use of the services of others. When a man of wealth pays a laboring man to work for him, he is in truth converting so much of his energy of position into actual energy. . . . The world of mechanism is not a manufactory, in which energy is created, but rather a mart, into which we may bring energy of one kind and change or barter it for an equivalent of another kind, that suits us better—but if we come with nothing, with nothing we will most assuredly return.⁵⁹

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Just as economic theory was constantly changing to adopt the latest fad in physics, so the English perception of the physical universe was changing just as constantly to adapt itself to the latest development in capitalism. So, to return to our original paradigm shift, Newtonian physics as perfected by Darwinian evolution transformed nature from “the bestower of bounteous gifts” into a “niggardly paymaster.” But then something unexpected happened in the mid-19th century when energy theory took over physics. An essentially continental (and therefore covertly Catholic) theory of energy as the basis of physics had created a universe which miraculously provided a “free lunch.”⁶⁰

Even if he does so unintentionally, Professor Beinhocker takes Professor Mirowski’s insight to a new level by showing—again, unintentionally—that evolution, survival of the fittest, and natural selection are rationalizations of English Capitalism projected on to the natural world as a way of exculpating its perpetrators of the guilt they incur by imposing this system of state-sponsored usury on the rest of us.

Taking Professor Beinhocker’s and Professor Mirowski’s insights to still another level, I would propose that just as classic economics is nothing more than bad physics, so the classical physics proposed by the Newtonian system is nothing more than bad economics, and by bad I use the word as implying both moral fault and intellectual defect.

Just as Darwin and Malthus projected the English Capitalism of their day onto the world of biology, so Newton projected the Capitalism of his day onto the universe when he said that its most fundamental principle was inertia or strife. This projection becomes clearer when we view Newtonian physics in its political and historical context.

Endnotes

1 Richard A Westfall, *Never at Rest: A Biography of Isaac Newton*, (Cambridge: Cambridge University Press, 1980), p. 424.

2 Ibid.

3 Michael White, *Isaac Newton: The Last Sorcerer*, (Reading, MA: Addison-Wesley, 1997), p. 226.

4 White, p. 226n.

5 Westfall, pp. 368-9.

6 Westfall, p. 472.

7 Glenn Olsen, *The Turn to Transcendence: The Role of Religion in the 21st Century*, (Washington, DC: The Catholic University of America Press, 2010), p. 222.

8 Olsen, p. 223.

- 9 Reginald Garrigou-Lagrange, O.P., *Providence* (St. Louis, MO: B. Herder Book Co., 1937), p. 250.
- 10 Simon Oliver, "Motion according to Aquinas and Newton," *Modern Theology* 17:2 (April 2001), p. 166.
- 11 Oliver, p. 190.
- 12 Olsen, p. 224.
- 13 Ibid. cf. Oliver, *op cit.* "Newton expounded his Arian views of Christ at least 15 years before the publication of the *Principia*. He expressed these doctrines in a manuscript dated to the period 1672-1675 which includes a series of statements on religion. In his second and third statements, Newton comments that "The world of God put absolutely and without particular restriction to the Son or Holy Ghost doth always signify the Father from one end of the Scripture to the other. . . . When ever it is said in the scriptures that there is but one God, it is meant of the Father.""
- 14 Oliver, p. 180-1.
- 15 Oliver, p. 181.
- 16 Olsen, p. 225n.
- 17 Westfall, p. 146.
- 18 Oliver, p. 188
- 19 Westfall, p.302.
- 20 Ibid.
- 21 Oliver, p. 185.
- 22 Oliver, p. 165.
- 23 Oliver, p. 186.
- 24 Oliver, p. 187.
- 25 Oliver, p. 190.
- 26 Garrigou-Lagrange, p. 5.
- 27 Garrigou-Lagrange, p. 292.
- 28 Heinrich Pesch, *Lehrbuch der Nationalökonomie*, translated and edited by Rupert J. Ederer, (Lewiston, NY: Edwin Mullen Press, 2002), Vol. I, Bk. 1, p. 138.
- 29 Pesch, *Lehrbuch*, p. 139.
- 30 Pesch, *Lehrbuch*, p. 58.
- 31 Garrigou-Lagrange, p. 27.
- 32 Garrigou-Lagrange, p. 292
- 33 Garrigou-Lagrange, p. 159.
- 34 Garrigou-Lagrange, p. 46.
- 35 Garrigou-Lagrange, p. 45.
- 36 Garrigou-Lagrange, p. 159.
- 37 Garrigou-Lagrange, p. 168.
- 38 Garrigou-Lagrange, p. 22.
- 39 Mirowski, p. 138.

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- 40 Eric D. Beinhocker, *The Origin of Wealth: Evolution, Complexity, and the Radical Remaking of Economics* (Boston, MA: Harvard Business School Press, 2006), p. 16.
- 41 Ibid.
- 42 Beinhocker, pp. 16-7.
- 43 Beinhocker, p. 12.
- 44 Ibid.
- 45 Beinhocker, p. 11.
- 46 Beinhocker, p. 12.
- 47 Mirowski, p. 357.
- 48 Philip Mirowski, *More Heat than Light: Economics as Social Physics, Physics as Nature's Economics* (Cambridge: Cambridge University Press, 1989), p. 3.
- 49 Ibid. "The view that there might be economic influences upon the structure of physics was regarded as akin to blasphemy."
- 50 Mirowski, p. 118.
- 51 Mirowski, p. 106.
- 52 Mirowski, p. 119.
- 53 Mirowski, p. 120.
- 54 Ibid.
- 55 Mirowski, p.122.
- 56 Mirowski, p. 123.
- 57 Ibid.
- 58 Ibid.
- 59 Mirowski, p. 132.
- 60 Mirowski, p. 392.



Chapter Forty-One

Newton and the Glorious Revolution

The *Principia* was composed during a period of great political turmoil. Newton, a committed Whig revolutionary, began work on the *Principia* in 1685. In February of that year Charles II died and was succeeded by his brother James II. James was a Catholic and with his accession to the throne “England was gripped by fears that his brother . . . James II, would attempt to convert the country into a Catholic state.”¹ “Newton,” we are told, “was horrified at the prospect.”²

While the galleys of the *Principia* were still at the press, Newton became embroiled in university politics when he opposed James’s order to admit a Benedictine priest by the name of Alban Francis to the degree of Master of the Arts “without exercises and without oaths.”³

When the university provost bungled the appeal, Newton was chosen as one of two representatives to convey to the vice-chancellor their view that it would still be illegal and unsafe to admit Father Francis to the degree without the oath.⁴ Westfall claims that “Newton spoke out and articulated the common fears when prudential considerations left others mute.”⁵ His principles were clear enough: “A mixture of Papist & Protestants in the same University can neither subsist happily nor long together.”⁶

After thwarting Father Francis’s attempt to get an MA at Cambridge, Newton became the object of Whig patronage. In September 1687, Newton became tutor to Robert Sacheverell, the son of William Sacheverell, “a leader of Parliament during the reign of Charles II who had led the attempt to exclude James from the throne.”⁷ Westfall claims that becoming Sacheverell’s tutor was a sign that “Newton had joined their [i.e., the Whig revolutionaries] ranks” and as a result “had good cause to lie low until the revolution.”⁸ After the Glorious Revolution, John Hampden, scion of the shipping firm, used his wealth and influence to solicit a position for Newton as provost of King’s College. Newton was beginning to travel “in a circle of some eminence,” and as befitting that station he arranged to have his portrait painted by Sir Godfrey Kneller.⁹

One year after the Alban Francis affair, in November 1688, William of Orange landed at the head of a 600-ship armada at Torbay, and James, the rightful sovereign, was forced to flee from London and a few days later was allowed to slip away by sea into exile. Newton, who was an “extreme Whig,”¹⁰ now found himself on the winning side of the Glorious Revolution. Within months he was elected to Parliament as the representative of Cambridge University. (Newton said only one thing during his time as MP.

Feeling a draught, he asked a nearby usher to close an open window.) Two days after being elected to Parliament, Newton dined with the King. The retiring professor was now a political player.

In 1689 Newton met the political philosopher John Locke for the first time, most probably at the house of the Earl of Pembroke. According to John Desauguliers, who would go on to become a promoter of the Newtonian system, Locke attempted to read the *Principia* while still in exile in Holland, but, being a “little smatterer,” could not figure out the mathematics, and had to rely on his good friend Christiaan Huygens, who assured him of the certainty of Newton’s calculations. When Locke “was assured that he might depend upon their certainty, he took them for granted, and carefully examined the reasonings and corollaries deduced from them.”¹¹

The two pillars of the English Enlightenment soon discovered that they had much in common. In addition to their common political views, both men were heretics of the Arian persuasion, and after much discussion Newton sent Locke an Arian Manifesto to be published anonymously in Holland and then circulated on the continent, and in particular in France, where it could be used to undermine the Bourbon monarchy.

In addition to being heretics, both pillars of the English Enlightenment were also alchemists. In May of 1692 Locke traveled to Cambridge where he and Newton took some “red earth” bequeathed them by the chemist and alchemist Robert Boyle and tried to transmute it in Newton’s laboratory into the philosopher’s stone. Of the two, Locke was the more avid (or credulous) alchemist:

To different extents, Locke and Newton both had notes on various parts of Boyle’s process, and Locke told Newton that he “had a mind to prosecute” it; indeed it seemed to Newton that Locke was “persuaded” about the possibility of transmutation into gold. Newton himself had “no opinion of it” and was not inclined to experiment with it. Though he was “satisfied . . . that mercury, by this recipe, may be brought to change its colors and properties,” he did not think “that gold may be multiplied thereby.” He eventually said “there is one argument against it which I could never find an answer to”—though he did not say what it was. Yet, despite his skepticism, Newton wanted some of Boyle’s earth himself, and was, he told Locke, prepared to “assist you all I can.”¹²

Newton and Locke were the Harry Potter and Ronald Weasley of their day. Locke may have needed Huygens to explain its mathematics, but he saw the political ramifications which flowed from the *Principia* without anyone’s assistance. Locke mentioned Newton glowingly in the introduction to his *Essay Concerning Human Understanding*. He obviously saw in Newton a valuable asset for the Whig cause. And what did the Whigs need most at this point, when the revolution was still young and vulnerable? Locke saw in Newton’s *Principia* a new source of political legitimacy, the one thing the Whig revolutionaries lacked when they placed a usurper on

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the throne.

The Glorious Revolution gave Locke and his Whig supporters the chance to implement Newtonianism as the philosophy which would grant legitimacy to the usurper William of Orange and the Whig ideology, otherwise known as Capitalism. Force is the crucial feature of Newtonian physics, and Newton's cosmology was a rationalization, in just about every sense of the word, of force. Motion was redefined. It no longer bespoke a *telos* or goal, as it had in the Aristotelian system. Motion was now extrinsic to the bodies in motion, and another word for that extrinsic motion was force. Once Whig magnates digested the lesson of the *Principia* with the help of propagandists like Locke, they learned that all motion was caused, not by entelechy leading them to their proper end or *telos*, but by external force, which was totally arbitrary and in that sense much like the force (William of Orange) which put James II in motion (ending in exile) and drove him from his rightful position (now associated with the outmoded concept of absolute place, where earth and water dwelt below and fire and air above) on the throne of England. To say that James II was the rightful king of England was now, in the brave new world of Newtonian politics, akin to saying that that natural abode of fire was up and earth down. There was no longer any proper end to motion. Every motion was arbitrary and a function of force. All motion was in the Aristotelian sense, "violent motion," and all of it was determined by force imposed from without. Newton's *Principia* was, in other words, a usurper's dream, and that is why the Whig Junta fastened on it as the answer to a maiden's prayer.

Newton's *Principia* gave mathematical and therefore scientific legitimacy to the world Shakespeare descried in the wake of the Protestant takeover of England and the looting of Church property that constituted the first stage of capital formation in the history of English Capitalism when he wrote:

Take but degree [or *telos*] away, untune that string,
And hark what discord follows! Each thing meets
In mere oppugnancy. [i.e. everything is now based on strife or competition or natural selection or survival of the fittest] The bounded waters
Should lift their bosoms higher than the shores
And make a sop of all this solid globe.
Strength should be the lord of imbecility.
And the rude son should strike his father dead.
Force [the heart of the Newtonian cosmology] should be right, or rather right and wrong,
Between whose endless jar justice resides
Should lose their names, and so should justice too.
Then everything includes itself in power,

Power into will, will into appetite,
And appetite, a universal wolf,
So doubly second with will and power
Must make perforce a universal prey,
And last eat it self up.¹³

This in a nutshell is the brave new world imposed on England by the Glorious Revolution as well as a summary of the operating system of that regime, which would soon come to be known as Capitalism. Capitalism is government-sponsored usury, and usury, like the universal wolf, invariably eats itself up, when the debt burden becomes insurmountable and the economy freezes up under it, as happened in 2008 and in 1929 and too many times previous to recount here.

Newton got the idea for inertia and gravity from alchemy, which got the ideas of love and strife from Empedocles, but he got his idea of force from the lived experience of English capitalism. The lessons Newton learned as a child were economic. Newton's father died when he was a child. When he was three years old his mother married a 63-year-old widower, who was also an Anglican priest, out of purely financial considerations. In the pre-nuptial agreement, Newton's mother agreed to leave three-year-old Isaac behind to be raised by his grandparents. The Rev. Smith lived longer than Isaac's mother expected. When she finally moved back to live with Isaac seven years later, she brought three half-siblings with her, and the bond between mother and child was irrevocably broken. Little Isaac had been permanently scarred by the experience. The universe was a different place, ruled by unseen forces that moved bodies in inexplicable ways, ways that a child of undeniable genius could not understand at the time but which he would attempt to explain in later life. Westfall claims that

Newton was a tortured man, an extremely neurotic personality who teetered always, at least through middle age, on the verge of breakdown. No one has to stretch credulity excessively to believe that the second marriage and departure of his mother could have contributed enormously to the inner torment of that the boy already perhaps bewildered by the realization that he, unlike others, had no father.¹⁴

White is even more specific and more censorious. He calls Hannah Ayscough-Newton-Smith's abandonment of her three year old son "totally heartless"¹⁵ and goes on to say that "The enforced separation from his mother at such an impressionable age has long been recognized as one of the key factors in shaping his character."¹⁶ Isaac's formed no bond with any of his numerous relations that can be traced in his later life. The lonely boyhood was the first chapter in a long career of isolation.¹⁷

If this trauma shaped Newton's character then it shaped the intellectual system that was the product of that character as well. Deprived of a

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mother's love and a father's guidance, Isaac could meditate upon the principles which his mother's sudden departure taught him during his lonely and unhappy childhood.

The first and most unmistakable conclusion that he deduced from his mother abandoning him is that human beings are atoms which proceed through life alone and at the mercy of impersonal forces. Newton's "enforced separation from his mother," who chose money over the welfare of her only child, became not only the basis for Newton's character, as White indicates, but the basis for his future physics as well; both derived their character from the economic lessons Newton learned as a three-year-old child who was abandoned by his mother.

Newton also learned from his mother that money is the unseen force that moves everything. As a result, Newton early on constructed a theory of economic forces which would have direct relevance to the cosmological theory at the heart of the *Principia*. Newton's real first law, which is to say, the one he learned from his mother, states that money is more important than the bond between a mother and her child. The traditional understanding of mother's love had implications for motion (the hand that rocks the cradle moves the world), but the understanding Newton derived had implications for motion as well. According to the new physics, the most intimate and familiar ties are controlled by abstract (ultimately economic) principles, which no child could understand and which remained mysterious to the great majority of mankind.

The heart of this economics is the idea of force, which, as Professor Mirowski has explained, is another word for money. Economic force (or money) alone explains the motion of heavenly bodies, like that of his mother. Money is the secret force that determines motion. There is no plenum or fullness to nature. There are only lonely atoms in a void moved by force. As Westfall tells us, "After deploying the standard arguments against a plenum, Newton opted for atoms," which is to say, a cosmology based on his life as an abandoned child and a lonely scholar.¹⁸

Like Darwin, Newton projected English capitalism onto the universe. Unlike Darwin, the pampered scion of the English ruling class, Newton projected capitalism as he saw it and lived it, the rejected outcast who was determined to make his way by usury (and the related science of alchemy) and political patronage. The ultimate source of Newton's cosmology wasn't mathematics; it wasn't disinterested observation eschewing "hypotheses"; it wasn't even alchemy, from which he derived the concepts of inertia and gravity. No, the ultimate source of Newton's cosmology was capitalism viewed through the lens of his relationship with his mother.

Subsequent experience only reinforced the view of the universe he learned from his absent mother. By the time Newton enrolled at Cambridge,

his mother was earning 700 pounds a year at a time when the skilled craftsman or the average civil servant had to make do on 50. And yet Newton had to earn his room board and tuition there as a "sizar," a servant who waited on tables and emptied the chamber pots of those better off than he.

The injustice of his economic situation led to thoughts of violence. In this situation, "which further poisoned his relations with his mother,"²⁹ Newton, the pawn of unseen forces as a child, consoled himself by constructing machines:

Similar stories of mechanical models are told of Robert Hooke's boyhood. In both cases manual skill served them well in constructing equipment for experiments. Far more important, however, is the testimony of such stories to the pervasive image of the machine in the 17th century mind. Already that image had reshaped the conception of nature. The pursuits of his boyhood prepared Newton to embrace the mechanical philosophy as soon as he met it.³⁰

Newton was fascinated by the idea of perpetual motion,²¹ and discovered it in the realm of finance before finding it in the realm of physics. Finding it "impossible to get along with his fellow students,"²² Newton decided to exploit them financially instead, by engaging in "extensive business in usury"²³ conducted largely among his fellow sizars. Newton would continue to be a money-lender for his entire life.

In 1693 Newton experienced what seems to have been a mental breakdown. In a manic and rambling letter he accused Locke of wanting to "embroil me with woemen."²⁴ Explanations for the breakdown range from mercury poisoning to the end of his relationship with Fatio, with whom he is suspected of having had homosexual relations. It may have had more to do with his experiments in alchemy. In particular, the passage in "Praxis" where he wrote:

"You may multiply it in quantity by the mercuries of which you made it first, amalgaming the stone with the [mercury] of 3 or more eagles & adding their weight of the water, & if you design it for metallis you may melt every time 3 parts of [gold] with one of the stone. Every multiplication will encrease its vertue ten times & if you use the [mercury] of the second or third rotation with the spirit, perhaps a thousand times. Thus you may multiply to infinity."²⁵

That was the hope, anyway, but the hope was never fulfilled. At least not in the laboratory. Newton may have become deranged from inhaling too much mercury or because Fatio left him, but his depression may have been caused by the failure of the alchemy project to which he had devoted most of his adult life. Newton now understood that it was impossible to multiply gold to infinity—in the laboratory, at any rate.

But then Newton's situation changed, and with the change in political climate he began to see that his alchemical dreams might be fulfilled elsewhere. With the election of 1694, the Whigs were swept into power,

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and Newton's friend Charles Montague was appointed Chancellor of the Exchequer. By the end of 1695 rumors began to circulate in London that Newton was to be appointed Master of the Royal Mint. "The mint," Berlin-ski opines, "was not a scientific institution, and recoinage had nothing to do with mathematical physics."²⁶ No, but it did have something to do with alchemy, and that is undoubtedly why the Whig Junta tapped Newton for the job.

The year 1696 was one of crisis for the Whig revolution. William's war with France placed financial demands far beyond any precedent on the state, and it was not clear that the demands would be met:

If they were not, if national bankruptcy ensued, the revolutionary settlement would undoubtedly collapse before a second Stuart restoration. In the larger crises of the government and its finances Newton was not involved beyond his concern as an Englishman committed to the revolution. . . . The monetary crisis, which bedeviled the financial crisis by reaching a climax when it could least be tolerated, occupied him almost completely for more than two years.²⁷

According to White,

There was not even a temporary respite in this until the unsatisfactory and short-lived Treaty of Ryswick in 1697, by which time the national reserves had been depleted within an ace of bankruptcy, stretching the national debt (a device newly created by Montague) almost beyond control.²⁸

William of Orange had embroiled England in what looked like an interminable war with France, and England didn't even have a decent currency to pay for the provisioning of the troops. Before taking the job as head of the mint, Newton would estimate that 20 percent of the coins in circulation were counterfeits. The rest had been clipped to the point where foreign markets no longer accepted English coins at full value.²⁹ Given the crisis, Charles Montague decided that the government needed to re-coin its silver currency according to modern methods, e.g., with a raised edge, which would make further clipping impossible.

In preparation for the job at the mint, Newton read every book on economics he could find and consulted with the "foremost financial thinkers of the day—Francis Brewster, William Lowndes, Jean Boizard, and his friend John Locke."³⁰ His notes on the history of economics, economic theory and the principles of money and currency filled whole notebooks. He also developed a theory of credit according to which: "Credit is a present remedy against poverty & like the best remedies in Physick works strongly and has a poisonous quality. For it inclines the nation to an expensive luxury in foreign commodities. But good physicians reject not strong remedies because they may kill but study how to apply them with safety and success."³¹

Then, early in March 1696, Newton received a visit from "A Londoner acquainted with Mr. Boyle and Mr. Dickinson," who

discoursed with him for two days on the Work according to Jodocus a Rhe, an early 17th century alchemist whom Newton had studied. Every indication in Newton's account of the visit suggests that the man knew exactly for whom he was looking when he came to Cambridge. As for Newton, he composed two drafts of a memorandum recording the conversation.³²

Two weeks later, after being vetted by the mysterious stranger, Newton got the job. Privy to the gossip which surrounded the appointment, Voltaire claimed that Newton got the job at the mint by pimping his niece, Catherine Barton, to Charles Montague, Lord Halifax:

I thought in my youth that Newton made his fortune by his merit. I supposed that the Court and the city of London named him Master of the Mint by acclamation. No such thing. Isaac Newton had a very charming niece, Madam Conduitt, who made a conquest of the minister Halifax. Fluxions and gravitation would have been of no use without a pretty niece.³³

Charles Montague was a notorious womanizer, and Catherine Barton was a beautiful woman, whose role as his mistress is beyond dispute. However, Newton's role in the affair remains murky. Westfall refuses to dismiss the charge out of hand, preferring instead to claim that "Newton's role in the affair" will "not to admit of ready untangling."³⁴ After admitting in effect that in addition to being a great mathematician Newton may also have been a pimp, Westfall says that it doesn't really matter because "Even if it could be proven beyond doubt that Newton was the leading whoremonger of London, the immensity of his impact on the modern intellect would remain unhindered."³⁵

Judging from subsequent events, the interview with the mysterious stranger probably had more to do with Newton's monetary policy than it did with the availability of his niece. Since the interview involved alchemy, and since Newton was going to be involved in the re-coinage that was going to save the Whig revolution, the questions posed to Newton most probably involved his willingness to debase the currency, the one way alchemists had actually multiplied gold during the Middle Ages. Secretary of the Treasury William Lowndes felt that the only way to save the Whig regime was to devalue the currency. And Newton "was one of the few who agreed with Lowndes's plan to devalue".³⁶

Prices would tend to rise an equivalent amount, but he thought that strict governmental controls exercised through the livery companies in London could prevent the inflation. He was willing, however, to let rents rise so that landlords would not suffer permanent loss. Holders of government annuities would suffer such loss, but he assumed that the Parliament would assuage their lot to maintain the government's credit. Locke was the most articulate of those who insisted that only recoinage at the old standard could salvage the currency.³⁷

Ultimately, Locke's view prevailed, and Newton was ordered to create

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an honest currency. Montague met the financial needs of the Whig regime with the newly created Bank of England instead of a debased currency, and Capitalism was launched in earnest onto a world where it would cause even more misery than the amateurish attempts that usury had caused during the Middle Ages.

Newton learned is his physics was more serviceable than he suspected, but more importantly than that, he learned that the dream of alchemy which he thought had died during the black year of 1693 hadn't died after all. It had been reborn. He and Locke had actually found their philosopher's stone in the world of modern Capitalist finance.

Endnotes

1 Michael White, *Isaac Newton: The Last Sorcerer*, (Reading, MA: Addison-Wesley, 1997), p. 215.

2 Ibid.

3 Richard A. Westfall, *Never at Rest: A Biography of Isaac Newton*, (Cambridge: Cambridge University Press, 1980), p. 474. Newton committed perjury to get the Lucasian chair. Cf. Westfall, p. 179: "Shortly after one o'clock on 2 October 1667, Newton became a fellow of the College of the Holy and Undivided Trinity when he swore "that I will embrace the true religion of Christ with all my soul . . . and also that I will either set Theology as the object of my studies and take holy orders when the time prescribed by these statutes arrives, or I will resign from the college." Westfall claims that Newton had become an Arian "well before 1675" when he received a dispensation from taking orders. His denial of the incarnation would have a profound effect on the universe his cosmology described.

4 Westfall, p. 477.

5 Ibid.

6 White, p. 230.

7 Westfall, p. 480.

8 Ibid.

9 Westfall, p. 481.

10 White, p. 232.

11 Roger Woolhouse, *Locke: A Biography* (Cambridge: Cambridge University Press, 2007), p. 278.

12 Woolhouse, p. 308.

13 William Shakespeare, "The Tragedy of Troilus and Cressida," in *Shakespeare: The Complete Works*, edited by G. B. Harrison, 973-1017, (New York: Harcourt, Brace & World, Inc., 1952), Act I, scene iii, 109-123.

14 Westfall, p. 53.

Barren Metal

- 15 White, p. 15.
- 16 White, p. 16.
- 17 Westfall, p. 55.
- 18 Westfall, p. 96.
- 19 Westfall, p. 78.
- 20 Westfall, p. 62.
- 21 Westfall, p. 90.
- 22 Westfall, p. 74.
- 23 Westfall, p. 76. "The others may well have regarded him as a climber, a strange figure for other reasons as well, tolerated only to the extent that he always had money to loan."
- 24 Westfall, p. 534.
- 25 Westfall, p. 530.
- 26 David Berlinski, *Newton's Gift: How Sir Isaac Newton Unlocked the System of the World*, (New York: The Free Press, 2000), p. 154.
- 27 Westfall, p. 551.
- 28 White, p. 259.
- 29 Westfall, p. 554.
- 30 Westfall, p. 264.
- 31 Westfall, p. 618.
- 32 Westfall, p. 526.
- 33 Westfall, p. 596.
- 34 Westfall, p. 597.
- 35 Westfall, p. 601.
- 36 Westfall, p. 555.
- 37 Ibid.

Chapter Forty-Two

Mercantilism

On September 7, 1651 Louis XIV became king of France, and under his rule France would become Europe's premier power. The philosopher Leibniz hailed him as "that great prince who is the acknowledged glory of our time, and for whom succeeding ages will long in vain."¹ Not content to limit the glories of his reign to France, Will and Ariel Durant would claim that "the century from 1660 to 1760 in France marks the zenith of civilization."² The man who came to be known as *le roi soleil* was invariably associated not only with the sun, but the sun at its zenith. Since the age was enamored with imagery from the Greek and Roman classics, it is unsurprising that Louis XIV should come to be associated with Phoebus Apollo, who drove the fiery chariot of the sun across the skies. Surprising is the fact that this became apparent early on, almost from the beginning.

When the Englishman John Evelyn viewed Louis's triumphal coronation march from the apartment of his fellow countryman Thomas Hobbes, he described the 13-year-old monarch as "a young Apollo,"³ who gloried in his role. "He went almost the whole way with his hat in hand, saluting the ladies and acclamators who filled the windows with their beauty and the air with *Vive le Roi!*"⁴

On May 6, 1682, Louis and his court moved to Versailles, where, according to Saint-Simon, he could keep better track of those who were plotting against him and escape the hated influence of the Fronde. What ever the reason, "Versailles became a dazzling, awe-inspiring setting for state affairs and the reception of foreign dignitaries. At Versailles, the king alone commanded attention."⁵

In an age when spectacle was an integral part of public life, Louis looked the part that he had been cast to play. He was only five feet five inches tall, but he was well-built and athletic and what was more important in an age when the procession was a politically important gesture, a good dancer. Louis loved dancing, praised it as "one of the most excellent and important disciplines for training the body," and established at Paris (1661) the Academie Royale de Danse.⁶ He took part in ballets, and the nobility followed suit. In fact he danced professionally in performances of Lully's operas in front of the court at Versailles. If contemporary portraiture is any indication of how he viewed himself, Louis was inordinately proud of his

legs, which are displayed regularly and prominently in form-hugging tights with bejewelled garters.

In economics, Louis XIV was not so lucky as in ballet. When his reign ended 72 years later in 1715, the state was bankrupt, unable to repay two billions livres in sovereign debt. The main cause of the debt was, as always, the extravagance of the sovereign, especially in war, but the economic system which facilitated this unhappy outcome was known as mercantilism. Otmar Spann claims that no one individual was responsible for the development of mercantilism, and he cites as his authority Oncken, who claims that it was “a system of sovereign welfare policy.” It was, in addition, a system in which an absolute political monarch organized the economy to favor bourgeois and mobile capital “to the detriment of the nobility and the lords of the soil.”⁸

Mercantilism signified the definitive transition from the labor-based feudal economy to the money-based economy of the modern era. That transition was fueled by the discovery of the New World, whose riches in gold and silver, began to pour into Spain at the beginning of the 16th century. Spann claims that “The influx of gold played a great part in undermining the foundations of the old natural economy, for it favored the diffusion of the means of credit and promoted the development of a capitalist economy.”⁹ It also led to an over-emphasis on the role which money played in the economy.

In 1613, the Neapolitan Antonio Serra wrote a book which was published in Naples with the title *Breve trattato della cause, che possono far abundare gli reg ni d'oro et d'argento, dove non sono miniere*. In this book Serra concluded that wealth, which is for him identical with the abundance of precious metals, has its primary source in the possession of gold and silver mines. Pesch claims that the basic principal of mercantilism is the proposition that wealth and the ownership of precious metals are essentially one and the same for the nation.¹⁰ “The best English writers,” he concedes, “knew full well that the wealth of a country does not consist merely in gold and silver, but also in its lands, houses, and consumer goods of all kinds”;¹¹ however, this knowledge didn't deter them from overvaluing the role which money, i.e., pieces of gold and silver, played in the economy. Serra himself believed that the state could derive greater advantage from manufacturing than from farming and included “industrial endeavor and the inventive genius of a nation's inhabitants” among the most important sources of wealth, but this didn't deter him from insisting nonetheless that ultimately wealth was gold and silver.

Greater truths about the economy were ignored by the men of this age, men blinded by the *auri sacri fames*, the accursed and all-consuming lust for gold. Money was gold, and gold money was another word for wealth.

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No one who wrote on the topic disputed this equation, but there were anomalies which complicated the situation nonetheless.

In France the chief theoretical exponents of mercantilist doctrine were Jean Bodin and Antoine de Montchretien, whose *Trait de l'economie politique* was published in 1615. Montchretien was the first writer to use the term "political economy," but in France, it was Jean Bodin who drew attention to the paradox of Spanish mercantilism, namely, the more gold and silver Spain got, the poorer she became. Bodin "taught that the value of money is reduced by too great an increase in the supply of it." He also "explained the price revolution of the 16th century in terms of the great increase in gold and silver from the newly discovered countries."¹²

In 1659 France brought its war with Spain over the queen's unpaid dowry to a successful conclusion when Spain, exhausted in both men and materiel, signed the Peace of the Pyrenees, which marked France's replacement of Spain as Europe's premier power. The Peace of the Pyrenees laid the foundation for *le grand siecle*:

Habsburg Spain surrendered her pride and leadership at Rocroi (1643) and the Peace of the Pyrenees (1659). Thereafter the French state was the strongest in Christendom, confident in its natural resources, the skills and loyalty of its people, the strategy of its generals, the destiny of its King. It was of some moment too that this youth was to reign for almost three quarters of a century, adding unity of government and policy to unity of race and soil. Now for fifty years France would support and import geniuses in science and letters, build colossal palaces, equip immense armies, frighten and inspire half the world. It was to be a picture of almost unprecedented glory, painted in all the forms and colors of art and in the blood of men.¹³

The peace of the Pyrenees concluded an economic process set in motion 130 years earlier when the French king paid Emperor Charles V the ransom to get back his two sons, captured by the Habsburg forces at the Battle of Pavia in 1525. According to the principles of mercantilism, the payment of that ransom along with the river of gold and silver which began pouring into Spain one year later in 1530 should have ensured Spanish hegemony for centuries to come.

Instead, it brought about Spain's economic and political decline. The infusion of gold and silver led to a spending spree which soon drove up prices in Spain making the import of goods from neighboring France more attractive. As a result, the money which had been so laboriously counted by the French and shipped across the river into Spain as the king's sons headed in the opposite direction, all flowed back into France, paving the way for *le grand siecle* which began under the reign of Louis XIV.

Money is a medium of exchange. If there is nothing to buy, then there is no reason for exchange, and if there is no reason for exchange, then money becomes worthless. As Spann put it, "When exchangeable goods are want-

ing, as in war-time, during famine or on the high seas, money becomes functionless."¹⁴ Failing to understand this point, the mercantilists over-emphasized the role of money, and as a result failed to see that "the primary constituent of wealth is not money, but goods and their production."¹⁵ The mercantilists may very well have known "that money is only wealth in virtue of its capacity for effecting transfers of property,"¹⁶ but their policies did nothing to acknowledge that fact.

Similarly, the point of money as a medium of exchange is to purchase something. If a person has all the money he needs, he has no reason to work. If he doesn't work, he doesn't produce anything of value. If he doesn't produce anything of value, he must purchase those things from those who do. The enormous amount of gold which Spain acquired from the Ransom of Pavia and the mines of the New World cut the nerve of industry. Pesch claims that "Once the gold began arriving in quantity, the Spanish were far more proficient at spending than producing. . . . The gold from America stifled Spain's incentive to produce."¹⁷ The arrival of gold created an atmosphere in which "Everyone wanted to get rich, not by hard work at home, but by appropriating colonial treasures." Blinded by the *auri sacri fames*, Spain forgot that all value is a function of human labor, and that when gold brings about contempt for human labor, it becomes nothing more than the curse of Midas.

Like Midas, everything the Spaniards touched during their conquest of America turned to gold, but, although it was both a store of value and a medium of exchange, gold cannot satisfy human desire. Only the things that gold could buy could satisfy those desires, and since the Spaniards were no longer producing those things, the gold slowly but inexorably slipped through their hands into the hands of those who were producing them. "Spain," Pesch tells us, "did not recognize the value of slow, deliberate growth which was nevertheless a more securely based and, therefore, more lasting kind of wealth overall."¹⁸

By the end of the 16th century, the Cortes or Spanish Parliament was complaining bitterly that "the more of [gold] that comes in, the less the Kingdom has. . . . Though our kingdom should be the richest in the world . . . they are the poorest for they are only a bridge for [the gold and silver] to go to the Kingdoms of our enemies."¹⁹ Pedro de Valencia wrote in 1608, "So much silver and money . . . always has been fatal poison to republics and cities. They believe that money will keep them, and it is not true: plowed fields, pastures and fisheries are what give sustenance."²⁰ Still another complained, "Agriculture has laid down the plough, clothed herself in silk, and softened her work-calloused hands."²¹ The indolence which the river of gold from the New World brought about forced Spain to purchase what it wanted and needed from France, which ended up with all of the money.

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This was the conclusion which the French physiocrats and their Scottish admirers came to a century later, when Adam Smith wrote: "Spain is rich, haughty, indolent . . . It is . . . the abundance of gold and silver that causes in part the dearness of things."²² The abundance of gold in Spain led to a decrease in its buying power, which led those who had gold to use it to purchase their goods elsewhere, which led to the gold flowing out of Spain. "When the quantity of gold and silver imported into any country exceeds the effectual demand," Smith continues,

no vigilance of government can prevent their exportation. All the sanguinary laws of Spain and Portugal are not able to keep their gold and silver at home. The continuing importations from Peru and Brazil . . . sink the price of these metals there below those in neighboring countries.²³

Smith got the idea that "the quantity of any commodity regulates itself in every country according the demand of those who are willing to pay enough to bring it to market" from Bodin, who demonstrated in 1568 that "rising amounts of gold and silver were associated with higher prices."²⁴ Bernstein claims that "the Price Revolution of the 16th Century would never have endured for such a long period of time had it not been nourished by the increased money supply produced from the New World's gold and silver bullion."²⁵

Smith's explanation is so neat that Pesch suspects that the model was derived from physics rather than the real world of economic exchange, but the Ransom of Pavia pointed out the paradox of mercantilism nonetheless. Not only was the conflation of money and wealth erroneous, the pursuit of gold was self-defeating. The money Spain acquired from the ransom flowed almost immediately back into France because it lamed their ability to work: "Gold and silver merely acquired their international status in Spain . . . without being in any way connected with the Spanish economy . . . There was an abundance of metals without any productive development, a rise in prices without any monetary alterations. In short, 16th century Spain was characterized by a separation between money and merchandise."²⁶

Since human labor is ultimately the source of all wealth, anything which crippled labor destroyed the wealth of a nation. Bodin pointed out that money not only "did not assure the wealth of a nation"; in fact, a "surplus of precious metals can even become a hindrance" to the acquisition of wealth.²⁷ Bodin claimed further that the law of supply and demand applied to precious metals. The huge quantities of gold and silver which the Spanish fleet brought from the colonies created a surplus, which caused money to suffer a loss in purchasing power. As a result, foreign goods became cheaper and local industry and agriculture were forced to the wall, ultimately impoverishing the country.²⁸ Blinded by the accursed lust for gold, the *auri sacri fames*, Spain failed to see that human labor not gold is

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the source of value. It wasn't just Spain's error. It was the error of the age, and the name of the error was Mercantilism.

Reacting to that error, Adam Smith claimed that "the most advantageous investment of its capital by a country is the kind which supports the greatest amount of productive labor and which increases the annual return from its soil and its labor." Smith felt that: "The examples of Spain and Portugal prove definitively that the monopoly of commerce with populous and thriving colonies is not enough by itself to establish industries in a country or even to preserve them. Both were industrial countries before they had significant colonies. Ever since they came to have the richest and most fertile colonies in the world, they were no longer industrial countries."²⁹

The paradoxical results of Spain's success in acquiring gold in the New World led to a closer investigation of the nature of money, as well as the relationship between money and wealth. The simplistic equation at the heart of mercantilism—i.e., money=wealth and wealth=money—was not only clearly inadequate, it "provided the immediate impetus for a regular, professional investigation of the nature and causes of natural wealth" that began as the "so-called cameral science, a science of royal treasuries."³⁰

During the transition from the feudal economy to the mercantile economy, Europe was starved for specie, a situation which led them to conclude that sufficient money, i.e., discovery of new sources of gold and silver, would solve their economic problems. Spann claims that:

Mercantilist statesmen and writers had good grounds for keeping before their eyes the growing need for money characteristic of the days in which they lived; they learned a lesson from their study of the quickening effects of an increase in the circulating medium—and increase which was above all essential to the transition from a more or less natural economy (that of the medieval towns and of agriculture subject to the *Corvée*) to a commencing capitalist and mercantile economy.³¹

The rise of Mercantilism brought the problem of money to the fore. During this period of time, money was in effect gold and silver. That meant that the national economy needed to conform to the amount of precious metals available to the nation. Too much or too little gold and silver brought problems, but no one understood why. During the 15th century there was too little gold and silver, which strangled the economy. During the 16th century, there was too much, which led to a rise in prices. Bernstein claims that "when a nation's supply of metal is insufficient to meet the needs of coinage" and the economy, there are three alternatives. The first option is:

to live with an insufficient supply of money, so that the demand for goods at current prices chronically falls short of the supply of goods offered for sale, and downward pressures on the price level persist over extended periods of time. This painful process has often occurred as a default solution, with dire political

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and social consequences. The Great Depression of the 1930s is the most vivid but by no means the only example of this policy.³²

The second option is "to import gold from other areas, either by plunder or by trade."³³ The third option is to debase the currency by "reducing the metallic base from which the coins are minted, or mixing base metal with the precious metal, while leaving the face value unchanged."³⁴

All three options were tried and found wanting during the period leading up to mercantilism. Choosing option three, Henry VIII engaged in the Great Debasement and wrecked English commerce for years thereafter as a result. This then led the English to fall back on option two, via piracy, and prey on the Spanish fleet as the simplest way to expand the money supply. The Fuggers were in many ways the most successful monetarists of the premercantilist era. They expanded the money supply by mining, and their expansion of the money supply was large enough to enable an expansion of the economy but not so large as to become self-defeating, as was the case with the Habsburg gold and silver mines in the New World.

The Europeans were like the dog that finally caught the car that it had been chasing, because only after the gold and silver started pouring in from the New World, when they had finally achieved the object of their deepest longing, did they realize that they now had another totally unexpected problem on their hands as the purchasing power of gold inexplicably declined. The industries which arose during the late Middle Ages in city states like Florence and Imperial cities like Augsburg had brought about a *de facto* growth in the economy which was not mirrored in the money supply, which was still bound to an inadequate supply of precious metal. The result was downward pressure on prices which inhibited the growth which more sophisticated industry and commerce were able to allow. The flood of gold from the New World had the opposite effect on prices in the following century but the effect on the real economy was similar, if not the same. Clearly, someone needed to devote thought to what money was and just how much was needed in order to meet the economic needs of a growing population which had increasingly sophisticated and increasingly productive technology at its disposal.

Any attempt to expand the money supply to meet the needs of a growing economy had to be based on clear understanding of the nature of money, and that understanding could only be derived from money's historical development. Aristotle claimed that the need for money arose from the difficulties involved in barter.³⁵ If a man had more goats than he needed but wanted a pair of shoes, he had to find a shoemaker who wanted a goat (or part of a goat) or he had to find a price ratio between those goods that could be embodied in something which both men, and eventually all men, saw as valuable. Pesch claims that:

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It is only with great difficulty that goods which are completely different in kind . . . and which will not permit measurement by the same standard of measurement . . . can be represented in quantitative ratio corresponding to their value, especially when such goods . . . cannot be divided or when they can be divided only with a diminution of destruction of their value.³⁶

All goods needed to be related to one good which was universally recognized as valuable. The relationship between all of the commodities for sale and the medium of universally recognized value came to be known as the price. In order to function as a medium of exchange, that universally recognized good had to have intrinsic value. If it didn't there was no guarantee against fraud. "In the course of time, the precious metals edged out all other means of exchange, and they came to be used also exclusively for accomplishing the widest variety of exchange transactions, and to measure exchange values or to carry over values in time and place."³⁷

Precious metals were suitable as the universal medium of exchange because of their intrinsic properties. "The use of precious metals for monetary purposes . . . was based on . . . the objective qualities of gold and silver."³⁸ They were universally desired and universally recognized as having value. "A small quantity was enough to command many or important goods in exchange."³⁹ Gold had "durability and permanence," and as a result it "possessed the guarantee of constant value, so that the course of time or other influences could not diminish its value."⁴⁰ Each unit had the same quality because base metals could be eliminated cheaply and easily compared with other metals.

Gold had the merits of fungibility compared with other goods, especially consumer goods. Gold was both malleable and virtually infinitely divisible, a quality which other highly valued goods like diamonds did not share. Gold was easily stored and transported and the shipping costs were small when compared to the great value involved. Once the ratios between various consumer goods got reduced to their relationship to gold, prices were available and once prices could be calculated, economic enterprise could make rational decisions about the future.

Once precious metals were agreed upon as the universal medium, someone had to certify that the amount of the metal which one received in exchange for a good was in fact the amount which the buyer claimed it was. Over the course of time, gold and silver came to be universally acclaimed as desirable and therefore having value, but gold didn't become money until the state certified the exact amount of gold being exchanged in the form of coins.

Gold is part of creation, but money as legal tender is a creation of the state because "the universal obligation to accept money as the means of payment, in such a way as to absolve debts can naturally only be brought

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about by public authority.³¹ State authority turned precious metals into legal tender and in doing this the state ensured the common good in financial transactions. The coin, according to Pesch, “can be designated in the broader sense as a lump of precious metal stamped as to weight and fineness by a recognized authority.”³² Because of the guarantees which the state placed behind its coins, the poor man could do business with the rich man with diminished fear of being cheated. If the state did not issue money and back it by its authority.

it would be very difficult if a poor man had to weigh a coin as often as he wanted to buy or sell something with it. But even more complex than weighing, where precious metals are concerned, is testing to determine the fineness of the metal, its purity, and its freedom from admixtures.³³

The state is necessary for the creation of money because the state has to guarantee the accuracy of the amount of precious metal in any exchange. More importantly, the state has to guarantee that the coin can be used to settle all debts and purchases. “The positive-juridical determination of a currency system . . . can naturally only be established by the state. It is the task of the state legislative process to regulate the norms for fulfilling all general monetary debts.”³⁴ The state’s authority to coin money resides ultimately in its power to enforce contracts.

In his book on money, Austrian School economist Murray Rothbard leaves out the most crucial element in the evolution of money by denying the state its proper role in the creation of money. Money, according to his libertarian reading, arises spontaneously from the workings of the free market, which brings about “a reinforcing spiral,” which means that “more marketability causes wider use as a medium which causes more marketability, etc.” until the point when “one or two commodities are used as general media—in almost all exchanges—and these are called money.”³⁵

In his description of the evolution of money, Rothbard makes no mention of the coin, probably because the coin is always issued by the state, which is invariably a term of opprobrium in libertarian circles. Coins, which were in circulation in the earliest periods of recorded history in places like Mesopotamia, were the state’s certification of gold and/or silver as money. In claiming that the state played no role in the evolution of money, Rothbard confuses the intrinsic value of precious metals with money, which is a legal entity brought into existence by the state’s power to certify measures and enforce contracts. In fact, he goes so far to claim that “government is powerless to create money for the free economy; it can only be developed by the processes of the free market.”³⁶

Rothbard fails to acknowledge that the state is essential to the guarantees which stand behind the coin, which is precious metals in certified amounts guaranteed as legal tender. Even if private entities were allowed to

make coins, the owner of the coin would be left with the task of enforcing their acceptance for all debts without the state's authority behind them. The process of certification which began when priests and other authorities vouched for the soundness of the amounts of gold and silver used in economic exchange found its culmination in the state's adoption of that responsibility in the interest of the common good:

It is obvious that the coinage system is tied most intimately with the common good of the nation. Not only is the action of the state justified in this matter, but also the taking over of stamping out coins as state monopoly, the complete regulation of the coinage system . . . by the state which is alone in a position to maintain intact a proper system of coinage in keeping with the public interest.⁴⁷

Many states and princes abused this privilege and created coins with "other financial considerations than the public economic interest"⁴⁸ in mind. But given the source of this abuse in fallen human nature, there is no guarantee that the same sort of abuse would not have occurred if private individuals had been granted the same privilege. When it comes to "having a good system of coinage . . . there is simply no question but that in an extended area the requisite guarantees can only be provided if the central authority takes in hand the regulation and administration of the coinage system."⁴⁹ This is axiomatic. If some individual were granted the right to make coins that were legal tender, that individual would be known as the sovereign, because by issuing the coin he demonstrated that he possessed the power of enforcement, which is *ipso facto* state power:

Coinage systems are only possible if money has assumed a legal connotation, and when at the same time, state legislation establishes precisely the juridical concept of universal monetary debts and how they may be paid off. It is a prerequisite of every system of coinage that the state calls for not only a definite ratio among the various kinds of coins, but that it also enforces it.⁵⁰

When the state codified that ratio and conferred upon some unit of universally recognized precious material a standard weight and value, the result was known as money. Money has four functions: it serves as "1) a general means to compare values and state prices; 2) the universal means of exchange; 3) the means of payment; 4) the bearer of value (store of value and means to transport value)."⁵¹ Since money in the traditional sense was either silver or gold, money was also a commodity, but money as money has a unique position among the commodities, most of which are destined for consumption and not exchange because money "may be removed from the circle of ordinary commodities and reserved for its commercial function as a means of exchange."⁵²

The significance of money for the national economy was overestimated by the mercantilists, and this led to a reaction which manifested itself in two different ways. First, there was the reaction of John Law, the Scottish

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adventurer who became Colbert's successor as finance minister in France. Law reacted to the overestimation of money that dominated the mercantilist era by creating the first major paper currency in history, a story we will discuss in the following chapter.

The next reaction came from the physiocrats, most famously represented by the Scottish Enlightenment thinker Adam Smith, who emphasized labor as the source of wealth and saw money as merely "the great wheel of circulation" or as the "great tool of commerce," and suggested that we can ignore it in most economic investigations.⁵³ Adam Smith compared money to the utensils of the household "so in a country the costs of the purchase of an unneeded quantity of gold and silver will also of necessity decrease the wealth which provides nutrition, clothing, sustenance, and world for the nation."⁵⁴

Spann disagrees with the classical economists, who claimed that "money was but a commodity like any other, cooking utensil, for example." This contention is erroneous because money is a "commodity of a special kind; it is the commodity which forms the connecting link between all others, and is in this sense the leading or organizing commodity."⁵⁵

Smith was certainly correct in restoring human labor to its proper dignity in the economic order, but Pesch warns against devaluing in the process the role which money plays in the economy, for, as he puts it,

Even if money as we know it is not everything in the national economy, yet it is of great importance. And if it is false to suppose that there is no other real wealth than money, it would be just as wrong to suggest that money is not wealth.⁵⁶

To those who would say that money can be a piece of paper representing something valuable but unwieldy, such as land, or something valuable but intangible, such as human labor, Pesch claims that money must have intrinsic value, a notion he derives from its history as the successor to barter. No one would accept a symbol in exchange for something of value. That is the only reason that money succeeded barter as the medium of exchange. Money does not represent value; it is value. If it is to be a store of value, it must have intrinsic value itself. If it did not have intrinsic value, it could not have functioned as a medium of exchange. Pesch claims that "Economic value can only be measured by economic value."⁵⁷ He then goes on to cite J. B. Say, who claims:

An object of no value could represent value, be a sign, a designation that the owner of the sign is the owner of the value which is not then present; however, money is not a value that is absent. Its value lies in itself. . . . There is a representative sign of money, like bank notes, bills of exchange, because these paper documents have no other value than the money which they entitle one to claim with them. But where money is concerned, it is not the sign; it is the stuff that is symbolized It does not represent value; it is value It is not words

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which determine but the nature of things, and as the dollar under Louis XIV was reduced to half an ounce, it happened that it bought only 30 pounds of grain instead of 60.⁵⁸

Michael Chevalier makes the same point as Say: "Money is more than a measure of value in that sense. It is at the same time an object which has its own value . . . this attribute of being an equivalent—equal value—is essential to money; and much trouble has come from the idea that one could abstract from this attribute."⁵⁹

In adverting to the trouble which invariably follows from attempts to "abstract from this attribute," Chevalier, like Pesch, is acknowledging that all of the advanced economies of their era and ours have paper money in circulation. But even granting that fact, "the value of metal money is still always drawn into the picture, and the price is expressed in marks, shillings, etc.. Behind paper money, even irredeemable paper money, there is always present the expression of an equivalent money of like value."⁶⁰ Paper can represent value, as when notes are redeemable, but once paper money becomes irredeemable, trouble soon follows because the temptation of the governments who move away from money as actual value is to print unlimited amounts of money to keep up with their unlimited ambition, which is invariably fueled by borrowed money, which must be paid back at compound interest.

Pesch argues that "In terms of material, metallic money was and continues to be a commodity."⁶¹ But Rothbard argues that money "is simply a commodity."⁶² He calls "Learning this simple lessons . . . one of the world's most important tasks."⁶³ But then after stating his case, Rothbard backs away from his original assertion by claiming that money "differs from other commodities in being demanded mainly as a medium of exchange."⁶⁴ If the main purpose of money is "as a medium of exchange" then it is not "simply a commodity." Money is different from other commodities, because they "have their ultimate purpose in consumption," whereas precious metal in the form of money has "its real significance . . . in that it facilitates the exchange of goods."⁶⁵

If, as Rothbard argues, "coinage is essentially a business like any other,"⁶⁶ then government is unnecessary. At this point we get to the libertarian distortion of economic principle which lies at the heart of their ideological agenda. "What," Rothbard wonders, "is there to prevent private minters from stamping the coin and guaranteeing its weight and fineness?"⁶⁷ If government is unnecessary, then private actors can perform all of its functions.

When it comes to issuing coins, however, only one sort of private actor is relevant, namely, the private actor who is in possession of gold. What libertarianism amounts to then is placing the entire economy under the control of the rich, to the complete exclusion of any notion that the common

good should temper economic arrangements. All libertarian arguments come down to a justification of economic measures which would concentrate financial and therefore political power in the hands of the wealthy few. History has shown that the one instrument which concentrates wealth in fewer and fewer hands more effectively than any other is usury, and so all of Rothbard's arguments demonizing "government" as the *radix malorum* are, in the final analysis, covert justifications for usury, a word never mentioned in his book on money.

In arguing that coinage could be done better by the free market, Rothbard claims that "Opponents of private coinage charge that fraud would run rampant. Yet, these same opponents would trust government to provide the coinage."⁶⁸ This argument seems more cogent when stated in its opposite form. If fraud were rampant when the government was involved in coinage, with all of the legal restraint government entails, then it would be even more rampant in the private sector with no controls at all.

Pesch admits that government can abuse its power and goes on to claim that debasement goes hand in hand with political absolutism when he writes that "Debasement of coins was based on the false assumption that the state has a totally absolute power over the coinage system . . . that . . . it could issue overvalued coins and put them into circulation."⁶⁹ But the abuse of government power which came about when people like Thomas Hobbes resurrected the classical pagan state as something to be emulated by Christian sovereigns does not discredit the notion of state power, which is, as we have already indicated, axiomatic. Any entity which has the power to enforce contracts is *ipso facto* the state, whether we call that entity an "insurance company," as Hans Herman Hoppe proposes, or whether we disguise that entity by referring to it as the "free market." All attempts to discredit the legitimate power of the state only lend power and credibility to those who want to use their wealth to exploit their fellow citizens with impunity.

Historically, one group of people has been associated with the predatory finance which finds its most powerful expression in usury, and that is the Jews. Since Rothbard is himself Jewish, all of his anti-government arguments take on the aura of special pleading, especially those which would hand over the power of coinage to those who have the gold. A sensible coinage policy, according to Pesch, would mean achieving "the happy medium between too little and too much cash money supply," even if difficulties arise in determining "how that can be accomplished in practice."⁷⁰

How then does a nation determine the money supply? Rothbard claims that the market performs this function all by itself. In fact, the very question of the proper size for the nation's money supply is meaningless. It simply

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doesn't matter what the supply of money is. Any supply will do as well as any other supply. The free market will simply adjust by changing the purchasing power, or effectiveness of the gold unit. There is no need to tamper with the market in order to alter the money supply that it determines.⁷¹

In keeping with the libertarian penchant to come up with the same cookie-cutter answer to every economic question, Rothbard unsurprisingly concludes that:

determining the supply of money, like all other goods, is best left to the free market. Aside from the general moral and economic advantages of freedom over coercion, no dictated quantity of money will do the work better, and the free market will set the production of gold in accordance with its relative ability to satisfy the needs of consumers, as compared with all other productive goods.⁷²

This simplistic answer to the money supply question sounds plausible in an age when government has become overbearing and intrusive and frequently involved in criminal activity, but it is historically inaccurate. During the 15th century, the money shortage was strangling the economy; similarly, during the 16th century a surplus of gold and silver drove up prices. To say that man cannot understand these aberrations and, further, that he can do nothing to ameliorate them, is a metaphysical statement about human reason that is both pessimistic and unrealistic, as well as, ultimately, self-serving.

By claiming that the state cannot increase the money supply, Rothbard favors the creditors in a capitalist economy, because their assets, especially gold, will be more powerful during the periods of deflation which inevitably occur when precious metals determine the money supply. A judicious increase in the money supply would foster commerce, which means that it would be in the interest of the common good, but Rothbard rejects any increase in the money supply *a priori* not because it is an impossibility but because it would diminish the power of the creditor class, a class of people that has been traditionally Jewish. Rothbard worries that an increase in the money supply would "simply dilute the effectiveness of each ounce" of gold.⁷³ In arguing this way, Rothbard favors Jewish interests, in particular, the interests of the usurer class over the common good.

Rothbard also favors deflation, as when he writes: "If people want more effective gold ounces in their cash balances, they can get them only through a fall in prices and a rise in the effectiveness of each ounce" of gold.⁷⁴ This is a peculiarly Jewish way of viewing the economy that is reminiscent of Shylock, when he brags to Antonio that he can make his ducats increase faster than Laban's ewes and rams. It clearly bespeaks a world view which sees no value in human labor and sees all value accruing from the copulation of barren metal that is implicit in usury. By seeing wealth in terms of "more effective gold ounces," Rothbard is attempting to impose the views

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of Shylock on a national economy in which all value comes ultimately from human labor. Any government which impedes the power of the creditor would be bad from his point of view, but to say this explicitly would tip us off to the fact that his economic theories serve Jewish interests at the expense of the common good, and so the libertarian rejects any government role in the economy in toto. Rothbard says there is no need for government to be involved in the issuance of money. "The important thing," Rothbard tells us, "is that the standard not be imposed by government decree."⁷⁵

In fact, any economy which was based on a strict gold standard (i.e., one that can only expand as the supply of gold expands) would be in a chronic deflationary state, much as the economy of Europe was during the great bullion dearth of the 15th century. To say that "An increase in the money supply . . . only dilutes the effectiveness of each gold ounce" is to take the position that those who own the gold should determine the parameters of the economy in their own interest. It is a covert defense of the usurers. Since Rothbard also defends hoarding ("Is hoarding really a menace?"⁷⁶), his defense of an economy which favors creditors and usurers should come as no surprise. Since defending an economic system that is predicated on the interest of usurers exceeds his (and anyone else's) rhetorical powers, Rothbard has to come up with a stalking horse, which he finds in "government," which allows him then to propose "freedom" as the opposite of government in a way that has become predictable. "Freedom," Rothbard tells us, "can run a monetary system as superbly as it runs the rest of the economy. Contrary to many writers, there is nothing special about money that requires extensive government dictation."⁷⁷

Waxing ever more tendentious, Rothbard then refers to the expansion of the money supply as "counterfeiting":

if government can find ways to engage in counterfeiting—the creation of new money out of thin air—it can quickly produce its own money without taking the trouble to sell services or mine gold. . . . Counterfeiting can create in its very victims the blissful illusion of unparalleled prosperity.⁷⁸

The fact that Rothbard misstates the problem so consistently creates the suspicion that an ideological agenda is driving his economic analysis. Counterfeiting doesn't create "the blissful illusion of unparalleled prosperity." That illusion, as the Faust legend makes clear, comes from living on borrowed money, i.e., usury. Similarly, usury, not "government" is the source of every economic problem which Rothbard mentions. Libertarian economics both disguises the real source of the problem and protects the usurers from government control. As a result, the whole issue of expanding the money supply, which Pesch concedes as difficult, gets diverted into a mass of tendentious misrepresentations. Sovereigns certainly have debased the coinage to enrich themselves at the expense of their subjects, but they

cannot engage in “counterfeiting” because the issue of coinage is one of their legitimate prerogatives. Ignoring fundamental issues like this, Rothbard then goes on to claim that

Counterfeiting is . . . but another name for inflation—both creating new “money” that is not standard gold or silver, and both functioning similarly. And now we see why governments are inherently inflationary: because inflation is a powerful and subtle means for government acquisition of the public’s resources, a painless and all the more dangerous form of taxation.⁷⁹

Once again, making government the villain disguises the real source of the problem, which has always been debt. Sovereign debt based on compound interest or usury causes inflation because the government has to expand the money supply to keep up with interest payments and avoid default. The government must debase the currency (i.e., expand the money supply in a reckless, inflationary manner) in order to keep one step ahead of insolvency because of debt, not because of some Manichean malevolence intrinsic to “government,” as the libertarian maintains.

Rothbard then claims that “inflation causes the dread [*sic*] ‘business cycle’”; the businessman must liquidate because of “wasteful investment” during the “inflationary boom.”⁸⁰ This is a roundabout way of saying that all businesses must pay back the money they borrowed, and that this becomes impossible when the economy is burdened with too much leverage, which is another way of saying that the business cycle is the result of usury.

In his seminal article on the debt deflation cycle, Irving Fisher claims that “General economic equilibrium is disturbed by only the one factor of over-indebtedness.” Fisher’s article appeared in 1933 and dealt with the Great Depression, which followed the stock market crash of 1929, but his explication of the “chain of consequences” which inevitably follows from over-indebtedness is equally applicable to both the recession of 2008 and the recession which paralyzed commerce in Florence during the last three decades of the 15th century. The trajectory is the same because capitalism is state-sponsored usury, and usury always has the same consequences. What Rothbard wants to preserve by promoting his Shylockian monetary policy is not the common good but the ability of the usurers to buy up assets for pennies on the dollar when the economy freezes up because of over-indebtedness. In order to maximize the grasp of those who have gold, which in a capitalist economy means the usurer, Rothbard consistently places the cart before the horse. The same thing is true of Rothbard’s analysis of World War I when he writes: “It was not gold that failed; it was the folly of trusting government to keep its promises. To wage the catastrophic war of World War I, each government had to inflate its own supply of paper and bank currency.”⁸¹

Once again Rothbard misstates the case. Governments inflate their

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currencies, not out of some intrinsic malevolence, but because they are unable to repay their debts. The real cause of inflation (i.e., the reckless expansion of the money supply) is debt. During World War I and virtually every other war, the state borrowed money to wage war. Unable to pay back what it borrowed, the government had to inflate the money supply to avoid insolvency. Once again, Rothbard uses government to shield the usurers from public scrutiny and the ire which invariably follows recognition of their always deleterious effects on the economy. Libertarian "medicine" is invariably worse than the economic disease that "Doctor" Rothbard offers to cure. Or as he puts it: "This prognosis can only be changed by a drastic alteration of the American world monetary system: by the return to a free market commodity such as gold and by removing the government totally from the monetary scene."⁸²

This prognosis, if implemented, would enable the usurers to practice usury with no restraint, which precisely what the banking industry did after the repeal of the Depression era Glass-Steagall Act in 1999. The results were catastrophic. No one knows how to extricate the world economy from its current position under a mountain of unrepayable debt.

Pesch claims that determining the money supply is complex but still possible in a way that fosters the common good of the national economy:

The supply of money required by the national economy is by no means limited; but its limits cannot be determined a priori. In determining the money supply, the government needs to consider "the increasing division of labor, the number and size of business transactions, the level of turnover of commodities and services, etc." as well as "the velocity of circulation of money has on the need for money."⁸³

Once the paradoxical effect which gold had on the Spanish economy became generally recognized, trade, followed by manufacturing, gradually came to be considered a more important source of wealth than gold and silver. The paradoxes inherent to mercantilist monetary policy led to the development of trade as the surest way to get money:

All of these circumstances worked together to make the need for money ever more pressing. That need, however, turned the attention of sharper minds to finding means to bring money into the country, and to retain that which was already there. Thus, for example the export of money was forbidden and punished. Indeed, one did not hesitate to depreciate the coinage, and one sought to increase money by assigning a nominal value to the coin which far exceeded its fine content. But all of these methods did not have the desired results . . . any more than the alchemy which sought to create gold in melting crucibles.⁸⁴

The notion that trade combined with protected manufactures was a surer source of gold and silver than mining (the Spanish way) or plunder (the English way) took root in France, largely because France lacked Spain's

mines and England's fleet.

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Chapter Forty-Three

Colbert

Mercantilism's leading exponent in France was Jean Baptiste Colbert. According to Pesch, "mercantilism achieved its most thorough and illustrious development under Colbert."¹ Born into a merchant family in 1619, Colbert had entered public service in 1639 and soon became a protégé of Cardinal Mazarin. Mazarin, born Guilio Mazarini in the Abruzzi of poor Sicilian parents, reached the apogee of wealth and power in his adopted country after he came to the notice of the French diplomatic corps for his masterful job negotiating the peace settlement following the Mantuan War in 1630.

Colbert's big break came in 1651 when Mazarin used him to spy on the Fronde, an uprising against the king which had its base in the French parliament. When Mazarin returned to power, he made Colbert his personal assistant and manager of his fortune, a position which allowed Colbert to become wealthy in his own right and become baron of Seignelay.

When Louis XIV assumed full personal control of the reins of government in 1661 after Mazarin's death, he appointed Colbert, at Mazarin's suggestion, to an important post in the finance ministry. Colbert gained still greater favor with the King when he revealed the hiding place of Mazarin's treasure. The act of confiscating that treasure made Louis XIV the richest monarch of his time.

In 1664 Jean Baptiste Colbert became the Superintendent of Buildings; one year later he became Controller-General of Finances, or France's minister of finance, and in 1669 he became Secretary of State of the Navy. For the next two decades, Colbert would concern himself with the economic reconstruction of France. In one of his first attempts at tax reform, Colbert complained in a memo to Mazarin that half of the taxes paid by the people ended up in the tax-collector's pockets, not the King's treasury. Colbert laid the blame for this state of affairs at the feet of his predecessor, finance minister Nicolas Fouquet and eventually brought about his downfall.

Fouquet collaborated in his own demise by inviting the king to the Lucullan festivities at Fouquet's chateau at Vaux-le-Vicomte. The banquet was so sumptuous and Fouquet's estate so lavishly appointed that the king, concluded that Fouquet could only have amassed such a fortune by diverting tax revenues from the state to his own account. Louis XIV ordered

Fouquet arrested, and the trial, which lasted three years, ended with his conviction. Fouquet spent the final 15 years of his life behind bars.

Secure in his possession of royal favor, Colbert set about reforming the royal finances. "No other man under Louis XIV rose so rapidly, worked so hard, or accomplished so much. . . . In remolding the French economy he used the same dictatorial methods that Richelieu had used in remolding the French state."² The reforms were long overdue. As of 1661, the royal treasury stood on the verge of bankruptcy. With Fouquet out of the way, Colbert attempted to reduce the national debt by reforming the tax code. In addition to various customs duties, the government's main sources of income were the gabelle, a tax on salt, and a taille, a tax on land.

No matter how corrupt and antiquated the tax collection system in France was during *le grand siecle*, the main problem plaguing the French economy was the sovereign debt. Because of the corruption of the tax collection system and his insatiable appetite for war and luxury, the king was constantly forced to borrow money from a cabal of wealthy landowners, who were the real source of power in France.

Colbert declared war on these wealthy bankers, who had grown fat from a fiscal system which allowed them to charge the king up to 18 percent on the money they lent him.³ Wealth and position meant nothing to the king, who set up a Chamber of Justice in 1634 at the suggestion of Colbert, who could now look into the records of "any person of any quality or condition whatsoever."⁴ As a result of those investigations a number of money men were hanged and others were sent to prison or the galleys.

As a result, Colbert increased tax revenues by roughly 150 million francs, a not insignificant sum, especially when combined with the money the king saved when Colbert abolished half of the offices in his own department, and then extended those austerity measures to include the entire royal household. Colbert also converted old government debts to new debts at a lower rate of interest, saving millions.

Unfortunately, a system this corrupt could not be reformed. The king's insatiable penchant for war and extravagance doomed Colbert's reforms. Louis XIV could never confine his expenses to income, necessitating more and more loans at ever-escalating rates of interest. The royal fisc deteriorated unabatedly in spite reforms because no force on earth can compete with the ferocity of compound interest.

Having thus introduced a measure of order into government finance, Colbert devoted his energies to the reorganization of industry and commerce. Colbert was the quintessential micromanager, and under his direction the ministry of finance became involved in every level and aspect of countless state-subsidized industries. Colbert nationalized the Gobelin tapestry works in Paris, and then set about to regulate its practices, prices,

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wages, sales, and technology. He then expanded his efforts to absorb other industries into the same overarching commercial system.

Under Colbert's direction, the French government promoted silk production in Lyon, making them, like the Gobelin looms, a protected government enterprise. He also lured Swedish ironworkers, Dutch shipbuilders and other foreign workers to France to create industries which would decrease foreign imports while increasing French exports, and thereby bringing about a favorable balance of trade, which reduced the outflow of precious metals.

By 1669, there were 40,000 textile factories in France, all functioning according to the same principles.⁵ These industries were protected by tariffs that would exclude competition from abroad and were often granted monopoly status against domestic competition until they were well-established enough to survive on their own.

Colbert also promoted a number of public works projects, including the Canal du Midi, which employed thousands and improved internal transportation. Colbert put 12,000 men to work digging the 162-mile long Languedoc Canal, and by 1681 French shipping could bypass Spain and Portugal via the Rhone, the canal, and the Garonne, in a network which linked the Mediterranean and the Atlantic.

Colbert's public works policy included shipbuilding, and he tried to rectify the imbalance in shipping symbolized best by the fact that tiny Holland had 16,000 of the 20,000 European ships then afloat and France, the premier country on the continent, only 500. As Secretary of State for the Navy from 1668, Colbert encouraged "the building of ships for the merchant navy by allowing a premium on those built at home and imposing a duty on those built abroad; and just as French workmen were forbidden to emigrate, so French seamen were forbidden to serve foreigners on pain of death."⁶

Colbert encouraged the exploration of North America, supporting Frontenac in his voyages to the Great Lakes, as well as LaSalle, who discovered the Mississippi in 1672 and sailed down it to the Gulf of Mexico taking possession of the Delta and naming the colony Louisiana in honor of Louis XIV. He also promoted the establishment of colonies like the one Cadillac founded in what is now Detroit. The colonies were part of Colbert's plan to increase French commerce and trade, consonant with the theory of mercantilism regnant then.

In writings which appeared from 1622 to 1628 the Englishman Thomas Mun followed Serra's lead by claiming that "Treasure by foreign trade or the balance of our trade is the rule of our treasure"⁷ and came to a similar conclusion: money, which is gold and silver, gives rise to trade, and trade increases money. As a result, mercantilism became "the system which es-

tablished trade, especially foreign trade as the principal goal of all economic policy.”⁸

A comparison of Portugal and Holland showed that commerce was more successful in creating wealth than gold. In spite of her New World colonies and the gold they produced, Portugal became dependent on the industries of Holland and England. According to Christian Eckert, “the nations of the Iberian Peninsula exhausted themselves in colonial conquest, despite their very favorable natural location. . . .”⁹ Holland, by contrast, became prosperous in spite of its diminutive size and lack of gold-producing colonies because “its maritime position enabled the Netherlands to rely heavily on commerce.”¹⁰

The champions of the mercantile system had a high estimate of the importance of money, but they did not esteem money as an end in itself; they valued it as a means to promote commerce and industry, they valued it on account of its productive effects. “Money begetteth trade,” writes Thomas Mun, the mercantilist, “and trade increaseth money.”¹¹

In order to unify the French economy Colbert tried to suppress internal tolls by issuing an edict in 1664, while imposing tariffs to raise revenue and protect fledgling industry. Colbert’s system of tariffs was a simplification but also a “significant reduction” of the former chaotic tariffs. His attempt to “preserve and foster every kind of self-sufficiency in the country” earned him admirers from those who study the history of economics. Friedrich List claimed that “Colbert had the courage to undertake a task single-handedly which England succeeded in accomplishing only after three centuries of effort and two revolutions. He used the best workers and manufacturers from all countries, bought up trade secrets, and procured better machines and tools.”¹²

Mercantilism was a necessary form of economic development. Sombart felt that it was a flawed but necessary stage in the development of “the political economy of early capitalism,” brought on by the discovery of America. Mercantilism “supplied the nations with the quantities of hard cash indispensable to the development of capitalism.”¹³ Mercantilism was in many ways superior to what followed because it viewed the national economy “as a single politically organized aggregate.” Kleinwachter also says there was a positive side to mercantilism:

if we look carefully at the prescriptions and measures of the various states, it is clear that their governments were determined, on the one hand, to get gold and silver into their countries by every conceivable means, and, on the other hand, to prevent the drain of precious metals out of their countries by all means. . . . The period following the discovery of America was the period of emergent capitalism. Mercantilism, however, which indicated the way for that money-poor era to get cash money into the country and keep it there so that capitalistic enterprises would have it at their disposal was . . . the scientific system of emerging capital-

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ism. Therefore, it was right for the time and by no means a mere Midas mania.¹⁴

Colbert's policies may have been draconian but they were far from inhumane. Pesch claims that he "was always guided by the twofold purpose, to bring wealth into the country by expanding production, and also to avert unemployment and poverty."¹⁵ Von Brandt even has good things to say about Colbert's agricultural policy: "The great goal of Colbert's grain policy was finding the happy medium between the consumer interests of the city people, in particular its industrial population, and the export interests of grain-growing agriculture."¹⁶

With the Italian commercial and industrial states, and in particular Venice as their models, the mercantilists promoted trade and industry—inevitably to the neglect of agriculture—as the factors which increased a nation's wealth. Mercantilism was based on a great esteem for money, and a great esteem for foreign trade (as the chief means for bringing money into the country). The wealth of a country was measured according to the money which it had.

Mercantilism's distortion of the true nature of money distorted the role of trade. Othmar Spann pointed out the paradox of Spanish mercantilism:

If you double the quantity of money in circulation, you will halve the purchasing power of money; prices will rise accordingly; thereupon exports will decline and imports will increase; with the result that money will flow out of the country. If this reasoning be sound, there is an intrinsic contradiction in the plan for promoting the influx of money by means of a favorable balance of trade.¹⁷

The apologists for mercantilism were unaware of this "intrinsic contradiction." The leading doctrine of the mercantile system was that trade was essential to establish a favorable balance of trade. The crux of the problem was the intrinsically contradictory nature of the notion of "a favorable balance of trade." The higher goal of Colbert's policy was acquisition and the establishment of the economic and political dominance of one's own nation over other nations. Colbert said, "We must wage war on the nations with our industry and overcome them by our taste."¹⁸ The source from which money flows to the country is foreign trade. If more goods are sold abroad than are purchased abroad, then its wealth increases.¹⁹ This idea led to the economically self-contradictory theory (or *reductio ad absurdum*) known as the "favorable" balance of trade:

Therefore, the government must do all in its power so that industry and trade arises in the country and flourishes, because in that way the resources of the country and of the nation can develop best, so that greater wealth is to be expected than if one carries on only agriculture and small-scale crafts. In order to strive for a favorable balance of trade, however, it is most important that the state forbid the import of foreign manufactured goods . . . or makes it difficult through tariffs and on the other hand that it eases the import of foreign raw

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materials to be processed here at home. Conversely, the export of unprocessed domestic raw materials must be made difficult by export tariffs. . . . The exclusion of foreign manufactured goods assures domestic industry a good market. The inhabitants of the same country should also provide employment and earnings for each other, and not take care of their wants by importing foreign goods.²⁰

The mercantilist dogma of "favorable balance of trade" had a number of pernicious ramifications. Mercantilists like Colbert needed cheap labor to strengthen large-scale industry because industry needed low prices to undercut foreign competition. Mercantilism actually impoverished the countries where it was implemented because one of its dogmas was low wages. Another means was to cheapen the necessities of life, so that wages could be kept down. Foodstuffs were freed from import duty, whilst high duties were imposed on exported grains. This was nowhere more apparent than in France.

In order to promote manufactures, Colbert had to keep the price of manufactured goods low, and in order to accomplish that he made the mistake of suppressing wages, which crippled the very national economy he was trying to restore. According to Colbert's theory,

the wages of the workers had to be low to enable their products to compete in foreign markets and thereby bring in gold; the rewards of employment had to be high to stimulate them to industrial enterprises in manufacturing goods, especially luxuries, that would be of no use in war, but could be exported at little cost for a high return and interest rates had to be low to tempt entrepreneurs to borrow capital. The competitive nature of man, in the lawless jungle of states geared their nationalistic economies to the chances and needs of war.²¹

The negative consequences of the "favorable balance of trade" wreaked havoc on the economy. Colbert ameliorated some of the abuse which the peasants' were forced to endure:

Legislation alleviated some rural griefs. The seizure of peasants' beasts, carts, or implements for debt was forbidden, even for debts owed the crown; stud farms were established where the peasants might have their mares serviced without charge; hunters were forbidden to traverse sown fields; and tax exemptions were offered to those who restored abandoned lands to cultivation.²²

But like mercantilists in general, Colbert sacrificed agriculture to industry. The Mercantilist system sought to keep wages low to prevent the export of grain and foster the export of manufactures:

The size of the population . . . has a beneficial effect on industry and commerce. Therefore, a government should also block the export of bread grains by a smart tariff system, and facilitate its import so that as large a possible a population will have adequate nutrition, and so that domestic industrial workers will enjoy cheap living costs and will be able to work at low wages, which will, at the same time, put industry in a position where it can compete successfully abroad with its export goods.²³

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In order to keep wages low and not have a workers' revolution on his hands, Colbert had to keep the price of grain low, but this had a crippling effect on agriculture. Colbert kept the price of grain down, in order to ensure a well-fed peasantry and army. But his efforts were counterproductive, because low food prices meant that productive land went fallow. In pursuing the classic mercantilist agriculture policy, he inadvertently created one famine after another:

There was no year without famine somewhere in France. The years 1648—51, 1660-62, 1693-4 and 1709-10 were periods of starvation terror, when in some districts 30 percent of the population died. In 1662, the King imported corn, sold it at a low price, or gave it to the poor, and remitted three million francs of taxes due.²⁴

Colbert showed great concern for domestic industry, which was expected to provide the export articles for foreign trade. Thus an almost unlimited field was provided for state activity with the purpose of protecting and promoting trade and industry. That is the essential content of mercantilism. As a rule, its supporters also accepted the viewpoint that the degree of wealth of a country was measured in terms of the money present in it. Thus, everything depended on seeing to it that there was a favorable balance of trade in foreign commerce:

Colbert . . . believed . . . that, since gold and silver were so valuable as mediums of exchange, commerce should be so regulated as to secure for the nation a "favorable balance of trade"—i.e., an excess of exports over imports, and therefore an influx of silver or gold. Only in this way could France, England, and the United Provinces, which had no gold in their soil, procure their needs and supply their troops in time of war. This was "mercantilism"; and though some economists ridiculed it, there was and will be, much to be said for it in an age of frequent wars. It applied to the nation the system of protective tariffs and regulations which in the Middle Ages had been applied to the commune as the unit of production and government.²⁵

The goal was a favorable balance of trade. Colbert believed that France should export manufactures and accept gold and silver in payment for them, thereby increasing France's store of precious metals, but he failed to see that this inherently contradictory notion led to war. Colbert's desire to increase French trade led him inevitably into conflict with the Dutch, who were pursuing the same favorable balance of trade policy even more ruthlessly than the French. The protection of national industry demanded tariffs against foreign produce, and other countries replied with tariffs against French goods. This tariff warfare was one of the chief causes of the Dutch War of 1672-78.

The mercantilist obsession with a favorable balance of trade blinded supporters of that doctrine to the true nature of and reason for commerce.

The necessity of trade is a function of creation and the fact that God distributed the wealth of the earth unequally among the various nations. Virtually every nation could produce a surplus in something; but no nation had all that it needed. The combination of those two facts led to trade, which is a form of exchange according to which each party benefits equally from any exchange. Spann claims that "One of the flaws in mercantilism was that its champions were often inclined to regard the mutual relations between the various national economies from the outlook of individualist economics (cutthroat competition)."²⁶ The mercantilist emphasis on the favorable balance of trade led inevitably to war.

The Dutch were the most notorious offenders against the notion of mutual benefit in commerce. The most notorious offender among the Dutch was the Netherlands East India Company, an entity which epitomized the rapacious corporation which was the dream of all free market state-haters ever since. The Dutch East Indies Company:

was an artificial para-state operating on a purely capitalistic basis, whose territory was comprised of ships on the high seas, to which the overseas colonial areas taken from the Spaniards aligned themselves as subject countries. The company was an artificial monster, a Hobbesian Leviathan in optima forma. Through this creature it became possible for the Dutch to live in a state of official truce with Spain (1609-1621) while still waging war outside of Europe through the company. The latter carried on allegedly on its own power. Soon the Spaniards were stripped of their most important former colonies in the East Indies, including Molucca, the Spice Islands, where the Dutch, armed with the free trade principle, now introduced a much cruder monopolistic system than had ever existed under the old Portuguese-Spanish regimen.²⁷

From the time it was created in the early 17th century until the company was dissolved in 1795, the Dutch East Indies company proved that brutal cut-throat business practices could earn handsome returns. Over the course of the 17th century, company stock value increased ten-fold and the owners of that stock "enjoyed dividends amounting to 75"²⁸ percent. The only real requirement for returns like this in the age of discoveries was a willingness to behave like a wolf to fellow human beings, whether Christian or pagan:

When the Japanese persecuted the Christians, the Dutch were not Christians; they fought along with the Japanese against the Portuguese. . . . The Dutch . . . understood how "to keep other Europeans at a distance and how to suppress commercial activity in the nations of the Orient by their cunning and their mercantile talent and, when conditions called for it, also by wanton cruelty and even murder."²⁹

The behavior of the Dutch showed the moral bankruptcy of mercantilism's favorable balance of trade theory. It guaranteed a reaction as well, first of one nation against another, and then of economic thought against the

system of mercantilism itself.

In 1651, the English Parliament under the direction of Cromwell passed the Navigation Law, which "declared that no merchandise . . . should be imported into England in any but English-built ships, belonging to English subjects, navigated by English commanders, with three-fourth of the crew English."³⁰ Cromwell's Navigation Act of 1651 was directed against Holland's middleman trade.³¹ Adam Smith noted that the Navigation Act stemmed from the bitterness of England toward Holland. Holland tried to force England to repeal the Navigation Acts by War (1652-1654).

In passing the Navigation Acts, the English were implementing the Mercantilist notion that a favorable balance of trade was good for England, but they were also reacting to the predatory nature of commerce prevalent among the Dutch, who also tried to achieve a favorable balance of trade, unhindered by any moral constraints. Commerce could not survive in this atmosphere of looting and war. Instead of learning from Holland's bad example, and deriving certain conclusions about the pernicious and self-defeating mercantilist dogma of the favorable balance of trade, England imitated the same Holland whose commercial behavior the English found so repugnant by founding their own East India Company and granting it in 1661 the same right to make war as the Dutch company had in non-Christian lands.³² Before long the mercantilist doctrine of "favorable balance of trade" got imposed on an intra-national level as well, as when "William III suppressed the woolen industry of Ireland in favor of the capitalistic Whigs when he forbade the export of woolen goods there."³³ Or when the Whigs founded the Bank of England and grew wealthy from the interest on the national debt which impoverished the rest of the nation.

Like the mercantilist monetary theory, the mercantilist theory of trade was riddled with anomalies as well. Ireland, to give one example, was impoverished even though its export of goods exceeded its imports. England, on the other hand, had an unfavorable balance of trade and remained wealthy, because, as Spann points out:

The wealthy lands are able to endure the persistence of an unfavorable balance between imports and exports because the payment of interest by foreign debtors, the sums received as profit on investments in foreign enterprises and so on, enable them to go on paying for the excess of imports.³⁴

In Pesch's day, the wealthiest nations all had trade deficits.³⁵ The main issue is not the balance of trade but how the money gets used:

If the debts are incurred, not to pay for current consumption, but in order that the money may be invested in improving the land and in building factories, they will increase production and promote public welfare. Hence, it is not the coming in or the going out of quantities of goods that is important, but the meaning of these processes; the question whether the goods be fruitfully or unfruitfully ar-

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ticulated into the general structure of the national economy. . . . Thus, mercantilism, notwithstanding all its defects, was a splendid conception of the economic life as a truly integrated entity, a conception which led to the inauguration of many methods of state-aid in the economic field which are still models for today.³⁶

Colbert died on September 6, 1683 a disappointed man, wishing that he had served God as well as he had served the king. Everything Colbert did was "subservient to the wishes and endeavors"³⁷ of an absolute monarch who was corrupted by his power into thinking that he could do whatever he wanted. Colbert's financial reforms brought more money into the royal treasury but never enough to keep up with the king's extravagance. In addition to numerous foreign wars, Louis XIV embarked upon a cultural campaign that included lavish subsidies for the arts and a massive building campaign that included as its centerpiece the spectacular Palace of Versailles. For ten years, France knew prosperity as never before. Then the faults of the system and its king brought it down. Colbert protested against the extravagance of king and court, and the disease of war which was consuming France in his old age; yet it was his high tariffs, as well as Louis's love of power and glory that led to some of those wars.

The best expression of the futility of that absolutism was the legacy of debt which Louis left behind. The illusion of debt fueled the illusion of absolute power. The money which Louis borrowed but which he could not pay back was the best symbol of the illusory nature of his power and the reversal of the true order of things:

The king and state exist for the people, not the reverse. The wealth of the nation as the goal of the economy constitutes an inviolable norm also for the financial apparatus of the state. The financial structure of the state is not above the national economy, but is instead in the service of it and of the goals of the economy.³⁸

Pesch says Prussia imitated Colbert's system by imposing export bans for raw materials and import bans on foreign manufactured goods, along with subsidies for domestic industry, but in spite of these measures, Germany was held back economically because, unlike France and England, there was no unified state to give birth to the national economy, the ideal economy of scale for economic development. More often than not Prussia's protective tariffs were directed against fellow Germans, holding back the unification of Germany which allowed a truly national economy to emerge. Spain and England achieved that unity in the 15th century. Once Germany achieved it in 1870, its economy began to assert itself economically in a way that had been impossible before. In the period just before World War I, Germany

surpassed France in overseas trade, which had a superior position geographi-

cally along the Channel and the ocean. In fact, Germany even began to rival the British Isles in world trade. What this demonstrated was the importance of sound economic policy, along with political development for the economic life of nations. The economic capacity of a nation is, in the long run, essentially dependent on the strengthening of its internal political structure. In world trade and in colonial matters only that nation will achieve great success which is internally united, and which has the will to assert itself in contention with other powers and to hang on to what it has achieved.³⁹

Pesch claims that mercantilism bespoke: "The increased significance which money acquired in the exchange involved in industrial and commercial transactions,"⁴⁰ but overall his judgment is negative. Colbert was right in claiming that the state must take a leading role in the management and regulation of economic life. But he was wrong in the application of that principle. State management of the economy can only be indirect, but Colbert "managed all of industry down to its technical operational forms by state regulation; and he determined according to which patterns, with what tools, and in what places the operations were to take place, and factory inspectors were appointed to control them; . . . it is with the eye of Providence that the absolute statesman wanted to oversee everything."⁴¹

Ultimately, the goals which mercantilism pursued reflected not so much sound economic principles as the dominion of the absolute notion of the state. The welfare of the state was placed above any consideration of the common good, ignoring the fact that in the final analysis the state is nothing more than the common good of its people. The false principles undergirding absolutism eventually led the state into embarking on economic policies which were self-contradictory and self-defeating.

Just as every national economy is a whole dependent upon the fruitful mutuality of its parts, so the world economy is a super-whole dependent upon the fruitful mutuality of the national economies which constitute its parts. The essential characteristic of the world economy is not that one nation gains and another loses, but that both gain by mutuality. Pesch's ultimate verdict on Colbert's mercantilism was that "Everything was too forced."⁴²

Ultimately, Mercantilism led to a reaction. Mercantilism paved the way for the reaction of the physiocrats, whose principal axiom was "*laissez faire*." In 1767, ten years before Adam Smith's *Wealth of Nations* was published, James Steuart rejected the idea that wealth is identical with a hoard of precious metals in his *Inquiry into the Principles of Political Economy*. By the end of the 18th century, it was clear that "the effort to advance trade and industry at any price and by all means in the interests of state finances" was a mistaken notion that ran "counter to the requirements of the general welfare, and which had especially damaging effects on agriculture."⁴³

Adam Smith's verdict on Colbert could serve as the epitaph of a failed

system: "That minister had unfortunately embraced all the prejudices of the mercantile system . . . instead of allowing every man to pursue his own interest in his own way, upon the liberal plan of equality, liberty and justice, he bestowed upon certain branches of industry extraordinary privileges, while he placed others under extraordinary restraints. . . . In order to render provisions cheap to the inhabitants of the towns, and therefore to encourage manufactures and foreign commerce, he prohibited altogether the exportation of corn, and this excluded the inhabitants of the country from every foreign market for by far the most important part of the produce of their industry."⁴

The reaction to mercantilism would pave the way for a whole new set of economic crimes which were to be committed in the name of freedom.

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Chapter Forty-Four

The Bank of England

In 1693 William Paterson, a Scottish adventurer of the sort that would have an inordinate influence over the cultural life of 18th century England, approached Charles Montague, Isaac Newton's long-time benefactor, about founding a bank. Paterson's supporters claimed that he had been a missionary in the West Indies. His detractors claimed that he had been a buccaneer.¹ Whatever his past may have involved, he soon gained the confidence of a group of City of London merchants and together they approached the government and proposed the formation of a joint-stock corporation that would lend its entire capital to the state. The group of investors would put up 1.2 million pounds of their own money, which they would then lend to the king for 11 years at 8 percent interest, with a 4,000 pound per annum charge for management expenses.² All the Parliament had to do in addition to chartering the bank was guarantee the loan and use tax money to pay the interest.

The proposal came at a time when financial innovation was in the air. Writers like Sir William Petty, Nicholas Barbon (son of the Puritan divine Praise-god Barebones) and Hugh Chamberlen were offering new solutions to old financial problems. Necessity, as always, proved to be the mother of invention. The two major powers in Europe, England and France, leaders of the Protestant and Catholic forces respectively, were locked in a life and death struggle over who was going to rule the world, and this meant prolonged war prolonged war meant unrepayable debt. In the past, debasing the currency had been the only way out of the financial dead end which war and usury inevitably brought about, but the Whig oligarchs, under John Locke's leadership, had decided against debasement when they assigned Newton to do the recoinage. It had never really worked in the past, and there was no indication that it would work now. Besides, there was something new on the financial horizon.

In 1609 a group of Dutch merchants had persuaded the city fathers of Amsterdam to create the *Amsterdamsche Wisselbank* as a way of dealing with the problems inherent in coined money. Debasement, both public and private, as well as the toll which the wear and tear of exchange had on soft metals like gold and silver, had led to a situation in which coins varied so much in value that they were on the verge of losing their value as a medium of exchange. Cognizant of this fact, the *Wisselbank* (or exchange bank)

took in coins, assayed them to ascertain their true value and then issued bank money in the form of notes, which could then be used in commerce and to pay off debt.

The bank was stunningly successful and helped fuel Holland's rise as a commercial power, but the operation of the bank over the course of the 17th century yielded an unexpected and, for a long time, unacknowledged auxiliary benefit. Toward the middle of the 17th century, banks on the continent like the Wisselbank began to create money. "The Wisselbank," according to Ederer,

established definitely a new monetary era. A marvelous new power probably equal to the potentialities of the discovery of coinage had evolved. The Bank had created money literally for over a hundred years without being discovered.³

At the time of its inception, the Wisselbank was a 100 percent reserve bank, but at some point, probably as early as 1656,⁴ it violated that principle and began lending out deposits, in effect using the same money twice, and as a result, "slipping secretly into the practice of monetary issue."⁵ In doing this, the Wisselbank created the first significant innovation in the history of money since Gyges invented the coin in Lydia in the 8th century B.C. Watching their hated commercial rival Holland morph into a world commercial power inspired the English to implement the same system, albeit almost a century later.

The Bank of England was hardly the instant success which the Whig propagandists made it out to be. Within two years, the bank had to suspend payments because of heavy specie demands, which some suspected had been orchestrated by the goldsmiths, who were trying to break the bank because of the competition it offered.⁶ But once it overcame those early crises, the Bank of England offered the perennially cashed-strapped English government so many advantages that it sounded like the answer to a maiden's prayer: "In one stroke, this scheme funded the war against France, put William's purse strings under Parliamentary control, and short-circuited City-Court antagonism by making Parliament the loan's guarantor."⁷ There were, of course, skeptics who felt that the idea of a permanent national debt as the solution to the crown's financial problems was an absurdity not unlike proposing suicide as the best way to drive down London's murder rate.⁸

Nonetheless, Paterson and Montague presented themselves as loyal Englishmen, who "were anxious to solve, or at least explain, the nation's overwhelming shortage of cash and suggest ways of making it more prosperous." Paterson, in his own words, wanted to establish a bank "for the convenience and security of great payments," as he explained, "and the better to facilitate the circulation of money, in and about this great and opulent city."⁹

There was more than a little self interest beneath all of this patriotism.

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The City merchants who backed Paterson were serving the interests of the nascent capitalist community in England. They were “Protestants to a man” and “solid in their support of the Glorious Revolution” of 1688, which had brought William of Orange to the English throne to replace James II, who had been deposed because he was a Catholic.¹⁰

The Stuarts may have been the legitimate heirs to the English throne but, from the Whig perspective, which is to say, from the perspective of the City merchants and financiers who backed Paterson and Montague, they had a number of flaws aside from their Catholic faith. Chief among them was their insufficiently commitment to the new financial arrangements that would come in time to be known as capitalism.

Like the Catholic monarchs on the continent, they were willing to borrow money, but unwilling to assert unreservedly the validity of usurious contracts that ensured that the creditors got their money back with interest. That meant that at any moment the creditors might lose the money they had lent to the crown, which is what happened in 1672, when Charles II stopped paying interest on his loans. The 1672 stop of the Exchequer meant that the goldsmiths were deprived of interest on one million pounds when the government ran into financial difficulties. The goldsmiths eventually recovered, but the damage the stop inflicted on government credit was permanent, and continued “throughout the remaining years of Stuart rule.”¹¹

Stuart “high-handedness” when it came to the interests of the Whig oligarchs included “stopped interest payments in 1683, renegotiated loans in 1672, and the infamous seizure of goldsmith’s deposits at the Royal Mint in the Tower of London.”¹² By 1688, Stuart fiscal policy had weakened the government to the point where the City of London was no longer willing to extended credit to the Crown.

As a result, the Whigs began to look about for a ruler more congenial to capitalism, and eventually they found that man in William of Orange, a Dutch Calvinist steeped in Dutch business practices, who was already locked in a life and death struggle with Louis XIV of France, the de facto head of Catholic Christendom. William came to the English throne with one thought uppermost in his mind. He wanted to use English resources to prosecute his on-going war with the King of France.

Parliament was of the same mind. For 20 of the 25 years from 1689 to 1713 England was at war with France. By the end of the 17th century, the transformation of war into a financial operation was complete. In 1695, Charles Davenant wrote: “but now the whole art of war is in a manner reduced to money; and nowadays that prince who can best find money to feed, clothes, and pay his army, not he that has the most valiant troops is surest of success and conquest.”¹³ The Nine Years’ War from 1689 to 1697 and the War of Spanish Succession from 1702 to 1713 taken together cost

the English crown 125 million pounds, an amount equal to three-quarters of the nation's annual budget. Taxes could not cover an amount like that, which meant that what taxes did not cover had to be borrowed.

In addition to being faced with inadequate tax revenue and a debased coinage, England also had an antiquated money market. At the end of the 17th century London lagged far behind the financial centers on the continent. For years England had been tied to "inadequate, relatively small-scale and high-interest banking and credit facilities," which were largely "provided by the goldsmith bankers of Cheapside, Fleet Street, and Lombard Street."⁴

Sir John Clapham describes the financial role which London goldsmiths played on the eve of the founding of the Bank of England:

In the early years of the Restoration, the goldsmith bankers of London were doing every kind of banking business. They accepted deposits at interest—6 percent was a normal rate—giving receipts, on presentation of which repayment was made, they kept "running cashes," also interest bearing, but without the formal receipt, and so easily drawn upon; they honoured their customers' "drawn notes" on these, and their own promises to pay the depositor or his order, and then the depositor or the bearer their "bills" or "notes," were getting into circulation. As goldsmiths, they bought and sold bullion and did ordinary business. With the funds at their disposal, they discounted commercial bills and different sorts of official obligations—tallies, Exchequer orders of various kinds."⁵

Nicholas Barbon complained that London merchants lacked the banking facilities which were common on the continent. "For want of such a bank," the London merchants

have been forced to carry their cash to goldsmiths, and have thereby raised such a credit upon goldsmiths' notes that they pass in payments from one to another like notes upon the bank; and although by this way of credit, there hath been very vast sums of money lost, not less than two millions within five and twenty years, yet the dispatch and ease in trade is so great by such notes, that the credit is still in some measure kept up."⁶

London's dependence on the goldsmiths meant that English finance was inferior to finance on the continent, which was managed by state-supported commercial banks. Municipally sponsored commercial banks had been established in Genoa in 1407, in Venice in 1587, in Barcelona in 1609, in Middleburg in 1616, in Hamburg in 1619, in Delft in 1621, in Stockholm in 1656, and in Amsterdam 1609.

The most famous of all of these banks was the Exchange Bank of Amsterdam, which had helped transform an insignificant European country with one major natural resource, namely, water, into the world's premier trading power, while France, Europe's most powerful country languished in international trade with a paltry three percent of Holland's shipping capacity.

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The Dutch learned from the Italians that the most successful banks could combine the best attributes of both paper and gold currencies. And so:

In Amsterdam the bank took deposits in local and foreign coinage, weighed them assessed them for their purity, and in return issued credit notes or bank money—a form of paper money—representing the intrinsic value of the metal content of the coins rather than their nominal face value.¹⁷

Bank money had advantages which the goldsmiths, tied to metal specie, could not offer:

Besides the convenience of easier and quicker payments . . . the bank saves the expense of cashiers, the expense of bags and carriage, losses by bad money, and the money is safer than in the merchants' houses for 'tis less liable to fire or robbery." The bank guaranteed credit notes and in its turn was endorsed by the state. Since the value of the note was assured, the public preferred them to conventional coins, and they usually changed hands for more than face value.¹⁸

As a medium of exchange, bank notes had undeniable advantages over metal specie. Paper money had been invented by the Chinese and had been in use there since the 7th century,¹⁹ but there was a danger that was intimately entwined with the advantages which bank money offered. There was an irresistible temptation to over-issue bank notes. The Swedes, who were rich in copper, had shown that that metal, unwieldy as it was (Swedes were oftentimes forced to carry sheets of metal which weighed as much as 15 kilograms to make payments) could be used as the basis for a paper currency. Johan Palmstruch did this in 1661 when the Stockholm Banco was founded and gave birth to the "the first true circulating European banknotes as we understand them today."²⁰ Palmstruch cleared the first hurdle when he got the Swedes to accept a paper currency. He failed to clear the second when he succumbed to the temptation to over-issue the paper he got them to accept. Once it became clear that the Swedish bank could not redeem the notes it had issued, a run on the bank brought about its collapse, and Palmstruch ended up in prison.

The main issue was prudence: "Amsterdam," we are told, "stood out as a shining example of prudence."²¹ By refusing to issue paper that was not backed by gold and silver reserves, the bank had prolonged its life, and with prolonged life came public confidence. Confidence attracted gold and silver specie like a magnet, which conferred more confidence on the paper the bank issued. It was the exact opposite of the vicious circle that led to the bank runs that destroyed the Banco in Stockholm.

The Bank of England's new directors were determined to imitate the Dutch and exercise similar of "prudence" in running their bank. They

might have made a "bubble" of the Bank, gutted it, and decamped or yielding to subtler temptation, have been filled with an inordinate ambition for power

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leading them into courses calamitous both to the Bank and to the country whose name it bore.²²

But they didn't. The Bank of England was modeled on the banks on the continent. According to Clapham, Italian finance was the model for English banking:

Discount, the purchase of bills of exchange, goes back to Europe to the 12th century and was well known in England in the later Middle Ages. But the combination of all these functions in one pair of hands, which constituted modern banking, and the supplementing of deposit by the use of the "write off" from one account to another, and of the cheque for making payments to anyone, only took place finally in England between about 1630 and 1670. About 1630 Thomas Mun was explaining how "The Italians and some other Nations . . . have banks both publick and private, wherein they do assign their credits from one to another daily for very great sums . . . by writings only."²³

Italian banks were, in turn, modeled on the *monti di pietà* which Fra Strozzi and the ill-fated Dominican Girolamo Savonarola had founded in Florence in the late 15th century. Since the *monti di pietà* was intended to help the poor, fees were kept low, and the *monte* was a benefit rather than a curse to those who borrowed money from it. That benefit proved irresistible to Duke Cosimo I, who nationalized the *monte* in the middle of the 16th century and thereafter used it to distribute perquisites to his supporters.

Paterson and Montague learned the lesson which Duke Cosimo I had learned after he took over the *monti di pietà* in Florence. Moderate interest rates (5 percent) provided a long-term stability to finance that was missing from the banks run according to the cut-throat practices of the Jewish pawnbrokers, who routinely charged 43 1/3 percent per annum.

Presented with such an ingenious expedient, Parliament and the King legislated the Bank of England into existence on 25 April 1694, authorizing a loan of 1.2 million pounds at an 8 percent rate of interest. In spite of being generally known as the Bank of England Act, 1694, the actual act has the considerably more unwieldy title:

An Act for granting to their Majesties several rates and duties upon tunnage of ships and vessels and upon Beer, Ale, and other liquors: for Securing certain recompenses and advantages in the said Act mentioned, to such persons as shall voluntarily advance the sum of 1.5 million pounds towards carrying on the war against France.²⁴

When the subscription list of the institution, known ever since as the Bank of England, was opened for investors on June 21, 1694, the Whig oligarchs flocked to the Mercer's Great Hall to subscribe to the initial stock flotation, which raised over a million pounds of capital in only 12 days.

By July 2, 1694 the public subscription was filled. The king had enough money to pursue his war—for the time being at least—and the limited issue

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of bank notes as a new medium of exchange helped alleviate the shortage of coin, which was constricting the economy. Once the stock flotation was complete, "the Bank of England's officials dispatched the first promised payment to the Treasury in the form of redeemable paper bills."²⁵

In addition to funding King Billy's war with the French, the Bank of England "provided low-interest loan, credit, and discounting services."²⁶ The Bank also issued paper bank notes and other paper credit instruments. And, finally, the Bank of England served London business as a reliable source of coinage and also of bullion ingots and bars, when paper transactions needed to be completed in gold and silver. All of these activities generated substantial profits for the hundreds of individuals who owned shares of Bank stock, and in whose economic interests the Bank was managed as a private joint stock corporation. Annual dividends on Bank of England stock before 1730 were often close to 12 percent.²⁷

In his book on the bank's architecture, Abramson portrays the history of the bank as an unmitigated success story:

Economically, the Bank, founded as a private corporation in 1694, was the premier institution of Britain's 18th century financial revolution and helped stimulate the nation's industrial development. Politically, the Bank underpinned Britain's national ascendancy over France by managing the country's public debt and helping to finance historic military victories from Blenheim (1704) to Waterloo (1815). Socially, the Bank of England represented the interests of a City of London mercantile elite and helped integrate men and women of all ranks into the culture of modern capitalism through the Bank's expanding stock market and paper currency. In the 19th and 20th centuries, the Bank of England became in myth and then in fact Britain's national bank: symbol of empire, guarantor of financial stability.²⁸

The Bank of England's Pay Hall, the Great Hall, became a symbol of the transparency and order of the new economic order which was a fusion of usury exacted at moderate interest rates and the orderly functioning of the Newtonian universe. Unlike the economic system which operated out of the cramped shops of goldsmiths and Jewish pawnbrokers, the Grocer's Great Hall turned banking into a "public spectacle."²⁹ Whig propagandists like Addison transformed the Great Hall into an allegory of England's modern economy. "In one of my late Rambles, or rather Speculations," Addison wrote in 1710,

I looked into the great Hall where the Bank is kept, and was not a little pleased to see the Directors, Secretaries, and Clerks, with all the other Members of that Wealthy Corporation, ranged in several stations, according to the Parts they act in that just and regular Oeconomy.³⁰

In 1725, Daniel Defoe, another Whig propagandist, had similarly glowing things to say about the Bank:

Barren Metal

Here business is dispatched with such exactness and such expedition and so much of it too, that it is really prodigious; no confusion, nobody is either denied of delayed payment, the merchants who keep their cash there, are sure to have their bills always paid, and even advances made on easy terms, if they have occasion. No accounts in the world are more exactly kept, no place in the world has so much business done, with so much ease.³¹

The transparency was all an illusion, of course, because even as Abramson admits:

Armed with insider information and access Bank directors made killings on the financial market, reserved for themselves the privilege of subscribing to restricted public funds and, as businessmen and merchants, secured lucrative military supply contracts.³²

In describing how “the Great Hall embodied the rationality, orderliness and probity of modern capitalism,”³³ what Addison and Defoe failed to tell is that only Whigs, which is to say the London City merchant class, were allowed to buy shares in the Bank. “In 1694 the typical Bank of England stockholder was a well-off London businessman and a Whig party supporter of William III.”³⁴ Sensing the weakness of a foreign king who was over his head in debt, the Whigs pressed their advantage, and “subtly wrung from an impecunious monarch in a neat and dignified legally binding contract the right to issue paper money.”³⁵

When the first 24-man Court of Directors was elected on July 10-11, 1694, voting was restricted to shareholders owning at least 500 pounds of stock (at a time when 50 pounds per annum was considered a solid middle class income). The fact that directors had to own 2000 pounds of stock excluded 90 percent of the Bank’s shareholders from the running.

Just as momentous as the ability to create money was the fact that the creation of the Bank of England “constituted the first complete official approval of money issue by private interests. In other words, private money issue became a socially and legally sanctioned institution during the 17th century.”³⁶ At the founding of the Bank of England, two things happened simultaneously: Bank money came into being in a significant way at the financial heart of the world’s greatest sea power, creating the first alternative to metal specie in 2,500 years, and the power to create money slipped from the hands of the sovereign into private hands.

The combined effect of these two events would have a momentous effect on the development of capitalism. The founding of the Bank of England under supervision of the Whig oligarchs was a privatization of a sovereign right similar in magnitude to the looting of Church property 150 years before with consequences that were just as far-reaching. Ederer claims that the sovereigns lost their monopoly on money creation through “faulty management,” which “provided a point of entry for the banking

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mechanism and bank-issued money. The displacement of the state from its predominance in monetary issue occurred quite smoothly and without sufficient fanfare to attract popular attention to what was happening.³⁷

The second cause of the change to bank money was “the inherent weakness of metallic money, which became apparent with the passing of time.”³⁸ Up until this time, the only way sovereigns knew to increase the money supply was by debasing the coinage, which invariably led to the ruin of trade. Faced with a mercantile elite which was growing in both political power and financial expertise, William of Orange, who was avid to prosecute his war against the French, took the easy way out and put the power of issue into the hands of a private bank.

The Bank of England would set the pattern for capitalism for years to come. Capitalism became a shell game in which the moneyed interests got to exploit the powers of the state for their own benefit, killing thereby any sense that the state existed to enforce the common good. The bailouts following the 2008 economic crash were a classic expression of the double standard which allowed private entities to grow fat from public funds with none of the restrictions that government’s mandate to act in the interest of the common good should have imposed. Tax money was taken from the public and given to the banks, which felt no obligation to act with the common good in mind. By the 21st century, bankers had mastered the art of having their cake and eating it too. They got all of the profits from their insanely risky behavior, but when the deals went bad, they got the government to bail them out. The form for Capitalism had already been cast when the Whig oligarchs founded the Bank of England and started to grow fat off of the interest of the perpetual debt which their bank enabled.

The Bank of England’s initial successes, coupled with invidious comparisons with the French system which “remained dominated by venal cliques of tax-farmers and receivers-general” as well as “poorly administered, without public accountability, immune to reform, susceptible to state repudiation, impaired by insufficient supplies of specie and burdened by high interest rates”³⁹ made war with France a certainty, and war made state debt even more certain, and debt made higher taxes to pay the usury burden more certain still. All of that tax money eventually found its way into Whig coffers, and the Whigs could easily disburse a portion of that money to scribblers like Addison and Defoe to ensure the favorable publicity which has come to be known as “Whig history.”

Abramson’s account of the Bank’s success is Whig History in every sense of the term. His account of the bank’s history is both about Whigs and written from their point of view. The bank became a “stronghold of the Whigs and a bulwark of the Protestant Succession, and would continue to fulfill a useful service to the nation down to the present day.”⁴⁰ The ser-

vices the bank provided were especially useful to the Whigs who owned the bank, because the Bank's subscribers were drawn from "a cohort of new men endeavoring to enter the City of London's elite commercial ranks."⁴¹ If most Whigs were excluded from the bank's board by lack of capital, the overwhelming majority of the English were excluded because they weren't Whigs. That meant that the nobility, the landed gentry, artisans or anyone else unfamiliar with the workings of London's capital markets would be excluded from the benefits accruing to the new bank, while being expected to pay the interest on the national debt which flowed into Whig coffers enriching them while impoverishing the nation at large by the increasing usury burden which went from onerous to intolerable over the course of the 18th century:

The Bank of England favored loans to overseas trading companies . . . to insurance companies . . . and to some industries and city improvement projects. . . . Significantly, the Bank of England did not lend to the landed gentry and aristocracy through mortgages or lines of credit, preferring to leave this business, risky and outside the Bank's own direct class interests, to private banking families like the Hoares and Childses.⁴²

And yet, in spite of the efforts of Addison and Defoe, the Bank of England was not without its critics. In the 1690s and 1700s numerous commentators called for the repayment of the national debt, which would have put an end to the bank itself. "If we let a long Debt continue," warned the political economist Davenant in the 1690s, "we pleasure one part of the People at the expense of the other, that is to say, we gratify the money's men and usurers who are the Drones of the Commonwealth at the Cost of the landed Man, the Farmer and the Industrious Merchant."⁴³

Critics accused the Whigs of using the debt to take control of the national economy, "taxing the landed to enrich the moneyed, subverting the social order, bankrupting the nation and blighting the future. . . ."⁴⁴

In his *History of the Reformation*, William Cobbett claims that the long-term effects of the Bank were disastrous for England. A permanent floating debt enriched one segment of the population, the Whig oligarchs who were the bank's shareholders, at the expense of everyone else, who were burdened, via taxation, with usurious debt payments which grew more and more onerous with time.

In addition, the bank created religious dissension by favoring the "Protestant" party, the Whigs, over the landed gentry and the state church. The bank act of 1694 gave rise to:

loans, funds, banks, bankers, bank notes and a national debt, things that England had never heard or dreamed of, before this war for "preserving the Protestant religion as by law established," things without which she had had a long and glorious career of many centuries, and had been the greatest and happiest

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country in the world; things which she never would and never could have heard of, had it not been for what is audaciously called the "Reformation," seeing that to lend money at interest, this to say, for gain, that is to say, to receive money for the use of money, seeing that to do this was contrary, and still is contrary to the principles of the Catholic Church, and amongst Christians or professors of Christianity such a thing was never heard of before than which is impudently called the "Reformation."⁴⁵

Cobbett condemned both the bank and the Whig bankers who grew fat off of state-sponsored usury with the benefit of over a century of hindsight, which allowed him to see the devastation that the floating debt had inflicted on the national economy. Cobbett was a lone voice harkening back to an era in which:

All declare[d] that to take money for the use of money is sinful. Indeed no such thing was ever attempted to be justified until the savage Henry VIII had cast off the supremacy of the pope. Jews did it, but then Jews had no civil rights. They existed only by mere sufferance. They could be shut up or banished or even sold at the king's pleasure. They were regarded as a sort of monsters, who professed to be the lineal descendants and to hold the opinions of those who had murdered the Son of God and the Saviour of Men. They were not permitted to practice their blasphemies openly. If they had synagogues, they were unseen by the people. The horrid wretches themselves were compelled to keep out of public view on Sundays and on Saints' Days. . . . They were not allowed to pollute with their presence the streets or the roads of a Christian country on days set aside for public devotion In degraded wretches like these usury was tolerated, just for the same cause that incest is tolerated among dogs.⁴⁶

The Bank Act destroyed whatever solidarity the English people may have had and replaced it with a system in which one group of Englishmen preyed on another in a manner not unlike how Jews exploited the *goyim* whenever they lent them money. Cobbett refers to the Bank Act, which he attributes to Bishop Gilbert Burnet, as a "debt-scheme that was invented by a Protestant Bishop for the purpose of utterly extirpating the Catholic religion" and enslaving the population at large. "From its ominous birth," the Bank of England had "been breeding swarms of Jews, Quakers, Usurers of every description, feeding and fattening on the vitals of the country: till, at last, it has produced what the world never saw before: starvation in the midst of abundance."⁴⁷

The intent to enslave was there from the moment of the bank's inception:

Their design was to mortgage by degrees, the whole of the country, all the lands, all the houses, and all other property and even all labour to those who would lend their money to the state. The thing soon began to swell at a great rate; and before the end of the "glorious" no-popery war, the interest alone of the Debt, the annual interest, amounted to 1,310,942L a year, which . . . was a greater sum than the whole of the taxes had amounted to in the reign of the Catholic James II.⁴⁸

Bishop Burnet's "deep scheme"

divided the nation into two classes, the taxpayers and the taxeaters, and these latter had the government at their back. The great protection of the people of England had always been that they could not be taxed without their own consent. This was always in Catholic times the great principle of the English government, and it is expressly and most explicitly asserted in Magna Charta, which was the work of a Catholic Archbishop of Canterbury more than anybody else The community was [now] completely divided, one part having a powerful interest in upholding that which was oppressive and ruinous to the other part.⁴⁹

War and taxes went hand in hand. The state bank and the floating debt financed the war against France in a way that was so convenient that it facilitated more war, which in turn, increased the sovereign debt and the interest that was needed to service it, all of which flowed into the coffers of the Whig oligarchs, who orchestrated their looting of the economy by stirring up fear in the population of "a restless and popish faction [who] are designing and endeavoring to renew the rebellion within this kingdom and an invasion from abroad destructive to the peace and security of the government."⁵⁰

The Bank of England was a smashing success—but only if you were a Whig financier growing fat off of the tax-supported interest payments which accrued in the Bank's stockholders' accounts. The rest of the country including most importantly the landed aristocracy, found itself groaning under an increasingly onerous and ultimately intolerable financial burden.

Like R. H. Tawney and Max Weber, William Cobbett saw a connection between Capitalism and Protestantism. Cobbett claimed that the Bank of England was tantamount to the invention of "national usury," and that it "arose out of the 'Reformation.'"

This monstrous thing was established for the express purpose of carrying on a war for the preservation of this Church of England against the efforts of Popery, but the inventor Burnet was the indefatigable advocate for the "Reformation" that even existed. To that the thing was not only invented by Protestants to do injury to Catholics; it was not only intended by them for this purpose; it was not only destined by the wisdom and justice of God to be a scourge, to be the most terrible of all scourges to the Protestants themselves, it was not only destined to make at last the "Church by law established" look at the usurers with no very quiet feelings: the thing was not only thus done and thus destined to operate, but the instrument was the fittest, the very fittest, that could have been found in the whole world.⁵¹

The purpose of the Glorious Revolution of 1688, according to Cobbett, was to bind England to usury. The Burnet Cobbett mentions is Gilbert Burnet, "a monstrously lying historian," who shipped over to Holland to become secretary to William of Orange, and who was later made Bishop of Salisbury "as a reward for his 'glorious revolution' services."⁵² The Stu-

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arts were insufficiently Protestant and insufficiently Capitalist to suit the needs of the Whig oligarchs who wielded de facto power in England. The Whigs were the heirs of the looters who had grown rich on the spoils stolen from the Catholic Church, and, as Tawney put it, now that they had "their teeth in the carcass, they weren't going to be whipped off by a sermon."⁵³ John Milton, scribe to the regicide Cromwell, came from a family of money scriveners, whom Clarendon describes as

a tribe that had risen and grown up in Cromwell's time, and never were heard of before the late troubles, till when the whole trade of money had passed through the hands of the scriveners; they were for the most part goldsmiths. Before the '40s goldsmith bankers had not in fact emerged as a distinct and dominant group from the mass of merchants, scriveners, ordinary goldsmiths, brokers, miscellaneous money lenders and usurers who supplied the needs and did some "trade of money" for the nobility, gentry, and other borrowers. . . . It was at Goldsmith's Hall that a joint committee of MPs and London citizens sat to raise money and mulct the royalist during the Civil War.⁵⁴

It was this tribe, which, refusing to lend to the Stuarts, brought the "Deliverer" to England from Holland. Deliverance, in this instance, meant that Bishop Burnet delivered the nation into the hands of usurers, when he "caused to be adopted the scheme of borrowing, of mortgaging the taxes and of pawning the property and labor of future generations."⁵⁵

The Glorious Revolution turns out to be a battle over usury, which was the ultimate legacy of the Reformation. If "James were restored" all of the "immense possessions which had been public or church possessions" would have been taken from the Whigs who were the architects of that revolution, "together with all the titles of nobility, all the bishoprics, in short, everything granted by the deliverer. Acts of Parliament were passed to provide against this danger." The Bank of England was the device which could "bind great numbers of the people to the new dynasty,"⁵⁶ because

If all, or a greater part, of those who had money to lend, could by the temptation of great gain, be induced to lend their money on interest to the Government: if they could be induced to do this, it was easy to see that all this description of persons would then be embarked in the same boat and that they who must necessarily be a class having great influence in the community would be amongst the most zealous supporters of the "deliverer" and the "glorious" aiders and abettors, and makers of the "revolution" which had just taken place.⁵⁷

The Glorious Revolution was an invention of the Protestant money changers. The price of "deliverance" from popery was unrepayable debt:

By George III . . . the debt from 1,500,000 l had swelled up to 146,682,844 l. The yearly interest of it had swelled up to 4,840,821l which was about four times as much as the whole annual amount of the taxes in the reign of Popish James II. . . . The people looked back with aching hearts to former happy days and the nobility

and gentry began to perceive, with dread and fear, that, already, their estates were beginning to pass quietly from them (as Swift told them they would) into the hands of the Jews, Quakers and other money-changers, created by the “no popery” war and by the scheme of the Scotchman Burnet.⁵⁸

Cobbett claims that the Bank of England-funded debt led to Revolution in the American colonies because the Whigs, confronted with unrepayable debt, decided “to shift the pressure of the debt from their own shoulders to that of the Americans” and to “throw . . . the no-popery debt upon their shoulders.”⁵⁹ The legacy of debt was revolution: “The French Revolution or ‘Reformation’ the fifth, grew immediately out of the American Revolution.”⁶⁰

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Chapter Forty-Five

John Law

Like Bishop Gilbert Burnet and Bank of England founder William Paterson, John Law was a Scottish adventurer who came to London to make his fortune. Law would have made a welcome addition to the ranks of the Whig magnates who founded the Bank of England, but at the time of the founding he was indisposed. He was in jail on a murder charge facing imminent execution. Two days before the founding of the Bank of England, Law had been sentenced to death for the murder of Edward Beau Wilson, who had died at Law's hand during a duel in Bloomsbury Square.

Whig finance was part of John Law's DNA: his father was a goldsmith, and John was born in April 1671 above his father's shop in Edinburgh, Scotland when the horizons of opportunity were constricted by lack of specie. As the barrister Joseph Taylor put it after a visit, "the excrements lie in heaps" in the streets of Edinburgh, but gold was hard to come by. The dearth of gold in Scotland would make money-lending a lucrative profession.

By the time John was 12 years old, his father was rich enough to acquire Lauriston Castle and give his son a liberal education, something that would stand him in good stead in creating the science of economics. When William Law died in Paris during an operation to remove a kidney stone, he left a will which showed that the Scottish lairds owed him 25,000 pounds; which meant that his son was—potentially, at least—fabulously wealthy. In Paris John Law would become famous as the negative alchemist who succeeded in turning gold into paper. Law had an ambivalent attitude toward gold that Murphy characterizes at first as "Oedipal" and then conventional when he writes that Law, "rather than rebelling against the tradition of his father's trade . . . was part of an underlying current which was producing a radical restructuring of the activities of the goldsmiths."² But Law's attitude toward gold wasn't easy to explain, as subsequent events would show.

Edward Beau Wilson, the man Law killed in a duel, was a man of independent means, but no one knew how he got his money. He was too young to have earned it and had none of the family connections that would have allowed him to inherit it. Wilson was the lover of Miss Elizabeth Villiers, but she was an unlikely source for the sort of money Wilson was throwing around. The first story floated about Law's involvement in Wilson's death was that he had been hired to rid Elizabeth Villiers of her importunate and

extravagant lover. Then other stories purporting to explain his death began to surface.

In 1723 a pamphlet entitled *Love-Letters between a Certain Late Nobleman and the Famous Mr. Wilson: Discovering the True History of the Rise and Surprising Grandeur of that Celebrated Beau* appeared implicating Wilson in "a homosexual relationship with an unnamed nobleman."³ The pamphlet may have been intended to keep Law from returning to power in France, but the incriminating circumstantial evidence points in the other direction, to the English throne and in particular to William III, who at first favored the death sentence for Law (something unheard of in cases of dueling) and later connived to allow Law's escape from prison. James Johnston, Earl of Warristoun, believed that "the jury against him was bought for I neither heard before nor after that killing a man in a fair duel was murder."⁴ It was Johnston who claimed that William III initially favored the death penalty. William's abrupt about face could be explained as an attempt to circumvent the rumors that were bound to circulate concerning an innocent man's death, or, better, two innocent men's deaths. The rumors circulated nonetheless: "During the 1690s rumours grew of William's alleged homosexual inclinations and led to the publication of many satirical pamphlets by his Jacobite detractors."⁵

Law escaped to the continent with the connivance of influential men at the court of William III, who drugged the men guarding him, and then filed through his shackles and the bars of his cell allowing him to climb over the prison wall and be picked up by a waiting carriage which transported him to the coast, from which he sailed to safety on the continent.⁶ A week later an announcement offering a reward for his capture appeared in the *London Gazette*. The description, however, was so inaccurate that it would prove useless to anyone looking for Law to claim the reward.

Little is known of Law's activities during the ten years following his escape. We do know that in 1697 Law moved to France, then the most powerful country in Europe. France had become more accessible to foreign tourists, who flocked to the Paris, "one of the most beautiful and magnificent [cities] in Europe . . . in which a traveler might find novelties enough for six months for daily entertainment."⁷

One of the first contacts Law made in Paris was with the exiled court of the Stuart pretender, James II. Since we know that the Crown engaged Law as a spy on the continent during the 1720s, becoming a British secret agent may have been a condition of his escape. When he first arrived in Paris, Law had little money and spent much of his time frequenting the exiled Jacobite court at St. Germain-en-laye.⁸ A Scotsman who was a fugitive from English justice would have presumably found a warm welcome among the Jacobite exiles, making spying on them that much easier.

Law was involved in intrigues of another sort in Paris, where he met the wife of a nobleman by the name of Catherine Seigneur, (born Catherine Knollys or Katherine Knowles) and persuaded her to abandon her husband and run off with him. Madame Seigneur was so impressed that she was willing "to pack up her awls, leave her husband and run away with him to Italy."⁹ They never married, but she would remain his common law wife for the rest of his life, bear his children, and eventually inherit his property, most notably his art collection, after his death.

The first stop on their honeymoon (if that is the right word for the initial phase of their elopement, which made headlines in the French papers) was northern Italy, "the birthplace of European banking."¹⁰ Law and Knowles presumably chose Venice as the first stop on their Grand Tour because Venice was famous for its carnival, which began the day after Christmas and lasted until Ash Wednesday, attracting on the average some 30,000 foreigners, who "invaded the city to enjoy a bacchanalian extravaganza of acrobatics, music, animal fights, fireworks, and dancing in the streets."¹¹

Venice was the Sin City of its day, famous for sex and gambling. With Katherine Knowles Seigneur as his companion, Law concentrated on the gaming tables, where he was "always happy,"¹² according to Abbe Conte. Law's happiness is not surprising, considering how good he was at winning money from the hapless aristocrats who were unfortunate enough to play cards with him. During his early years on the continent, Law built up his fortune through gambling.¹³

When he wasn't cleaning up at cards, Law would spend time visiting

the Banco di Rialto and the Banco del Giro, where he learned that the banks of Venice "accepted . . . deposits in adulterated coins" and in return "issu[ed] notes in 'bank money'" backed by the state. Law also learned much about foreign exchange dealing in Venice. According to Gray, "he constantly went to the Rialto at change time No merchant was punctualler, he observed the course of exchange all the world over, the manner of discounting bills at the bank, the vast usefulness of paper credit, how gladly people parted with their money for paper, and how the profits accrued to the proprietors from this paper."¹⁴

Banking and gambling were inextricably connected in Law's mind because, technically speaking, Law was not a gambler. The term for the man who dealt the cards at the games, like faro and bassett, from which Law eventually accumulated a fortune of 1.6 million livres, was in fact "banker." In the games of chance from which he accumulated his fortune, he invariably played the "house" or "bank," which gave him a numerically calculable advantage over the true "gamblers." When in Paris, we are told, Law "usually . . . acted as the banker at the home of the celebrated actress La Duclos where he organized a very big game, notwithstanding which he was sought after by princes and the highest ranking nobility as well as many

famous academies where his noble manners and his calm temperament distinguished him from other players.²⁵

The odds at faro and basset "are stacked heavily in favor of the banker—a role Law adopted whenever he could, possibly paying his hostess for the privilege."²⁶ As a result, Law felt confident in making big bets and "never carried less than two bags filled with gold coins worth around 100,000 livres." The stakes in games Law bankrolled were so high that his hands "were unable to contain the coins he wished to stake."²⁷

After earning what he could at the gaming tables of Venice and learning what he could from observing the republic's banks, John Law spent time investigating the operations of other leading banking centers on the continent. Spending time at financial centers like Amsterdam, Venice and Genoa re-awoke an interest in money which had lain dormant since his days in his father's goldsmith business in Edinburgh.

Places like Amsterdam were fascinating in other ways as well. The bank of Amsterdam, founded in 1609, successfully issued a paper currency, which had endured for almost a century. The confidence in that currency was stronger than ever. Holland was the main mercantile power of its day largely because of the Bank of Amsterdam, which "had brought economic stability to the country, boosted trade, and for a time, made the Netherlands the commercial superpower of the world."²⁸ While in Amsterdam, Law noticed the advantages of bank money issued as paper.

In spite of his undeniable genius in monetary matters, Law's reputation among economists never survived his early career as a gambler. He has been viewed with a combination of suspicion and awe by virtually every economist since his day. Even fellow Scots like David Hume and Adam Smith were "distinctly ambivalent" when evaluating his contribution to the science of economics. In his essay "Of Public Credit," Hume describes him as "the daring projector" who wrecked the French economy.²⁹

Law's theories were, in fact, something that only a country which was hopelessly in debt would take seriously. His power over the French was a function of their despair:

it is not altogether improbable, that, when the nation becomes heartily sick of their debts and is cruelly oppressed by them, some daring projector may arise with visionary schemes for their discharge. And as public credit will begin, by that time, to be a little frail, the least touch will destroy it, as happened in France during the regency; and in this manner it will die of the doctor.²⁰

Smith described the theories presented in Law's book *Money and Trade* (1705) as "splendid but visionary."²¹ Karl Marx claimed that Law combined "the pleasant character mixture of swindler and prophet."²² Alfred Marshall referred to Law as "that reckless, and unbalanced but most fascinating genius."²³ Joseph Schumpeter concurred with Marshall's verdict, claiming

that Law was "in a class by himself." His genius allowed him to "work out the economics of his projects with a brilliance and, yes, a profundity, which places him in the front ranks of monetary theorists of all time."²⁴

"After ten years of economic research," Gleeson tells us, Law "had accumulated formidable financial knowledge as well as 20,000 pounds from gambling, money-lending, and foreign-exchange trading."²⁵ In addition to giving Law the means to live a lavish life in Europe's capitals, gambling allowed Law to meet Europe's political and financial power structure and to impress them with his financial expertise, his intellectual daring, and his *sang froid* at the tables of Venice, where he met both the Duke of Vendome and the Duke of Savoy, men who would open doors for him when he returned to Paris.

The most important thing he brought to Paris, however, was his knowledge not of gambling in Venice but of banking in England. By 1697 the bank crisis of the previous year was over, and the recoinage, managed so ably by Montague's protégé Isaac Newton, was complete. The recoinage convinced Law that sound money was essential for any country's prosperity. What Law learned from the banks and gambling dens of the continent, however, was that sound money and metal coins were two separable entities. The financial revolution in England was based on the bank notes which had been issued by the Bank of England, not the specie in its vaults. Law understood that there was a connection between the two, but just what that connection was, no one could say.

By this point in time, fractional reserve banking was an integral part of the world's financial system, and had been so since the Italians had discovered that they could lend out more than they actually possessed during the time of the Crusades, and no one would be the worse for their practices as long as no one knew about it. If it worked for banks, why couldn't the same principle work for state banks as well? This was the unspoken question at the heart of the financial revolution in England when Law was learning the banking system during his *Wanderjahren* on the continent. The Glorious Revolution had finally laid medieval man to rest and resurrected in his place the new paradigm of "economic man":

And now the emerging concept of "economic man" led easily to the belief that "Man's self-interest was the means of God's providence"; therefore, provided that he was upright and just in his dealings, there was nothing to prevent the religious man from making as much money as he could. "The good Christian was not wholly dissimilar from the economic man."²⁶

The success of the Bank of England had become apparent to all by 1697, when the crown successfully negotiated the recoinage without the debasement that everyone was expecting, and which Newton was not unwilling to carry out. That success brought about a revolution in consciousness:

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After a century-long struggle the Protestant way of regarding man, and his duty to God and his neighbor had at last prevailed in England, and while it would be preposterous to call the Bank a religious institution, its establishment was nevertheless largely a direct consequence of this radical change in religious outlook. The Church no longer kept the conscience of both rulers and ruled. As for the rulers, anything which was expedient for the survival and growth of the State was right; as for the ruled each man, with his private conscience for guide, worked out his own salvation within the laws laid down by the State.²⁷

Not everyone agreed with the new financial arrangements. Alexander Pope, like Jonathan Swift and William Cobbett, viewed the new economic system with a suspicion which was based on moral principle and attacked Sir Gilbert Heathcote, one of the original directors of the bank in verse: "The grave Sir Gilbert holds for a rule/That every man in want is knave or fool."²⁸

Nonetheless, "The sudden availability of such substantial sums, in what was practically hard cash, had results . . . which were immediate and far-reaching,"²⁹ and those benefits, which were imposed on English taxpayers for generations to come, seemed so impressive that they swept all objections before them. The Navy ordered the construction of a fleet of new ships, which provided employment to the skilled and boom times for suppliers, which in turn led to "revolutionary improvements" in the Navy's fighting abilities, which led to the conquest of new lands, with new possibilities for trade, which further enriched the merchant class that made up the backbone of the Whig oligarchy which had founded the bank.

France, which was entering the final period of the glorious, if profligate, reign of Louis XIV, had no state bank and as a result was "extremely backward in financial matters relative to its enemies England and Holland."³⁰ This absence spelled opportunity for a man like Law who saw that "rich pickings" were available to anyone who would be able to convince the French to implement a financial system similar to the one which fellow Scottish adventurer William Paterson had implemented in England.

Endnotes

- 1 Antoin E. Murphy, *John Law: Economic Theorist and Policy-Maker* (Oxford: Clarendon Press, 1997), p. 17.
- 2 Murphy, p. 16.
- 3 Murphy, p. 24.
- 4 Murphy, p. 29.
- 5 "William III of England," *Wikipedia*, http://en.wikipedia.org/wiki/William_III_of_England.
- 6 Janet Gleeson, *Millionaire: The Philanderer, Gambler and Duelist who Invented Modern Finance* (New York: Simon & Schuster, 1999), p. 64.
- 7 Ibid.
- 8 Murphy, p. 36.
- 9 Ibid.
- 10 Gleeson, p. 78.
- 11 Gleeson, p. 79.
- 12 Murphy, p. 38.
- 13 Murphy, p. 37.
- 14 Gleeson, p. 78.
- 15 Murphy, p. 39.
- 16 Gleeson, p. 43.
- 17 Gleeson, p. 75.
- 18 Gleeson, p. 70.
- 19 Murphy, p. 5.
- 20 Ibid.
- 21 Murphy, p. 5.
- 22 Murphy, p. 6.
- 23 Ibid.
- 24 Murphy, pp. 5-6.
- 25 Gleeson, p. 79.
- 26 Murphy, p. 107.
- 27 John Giuseppi, *The Bank of England: A History from its Inception in 1694*, (Chicago: Henry Regnery, 1966), p. 16.
- 28 Ibid.
- 29 Giuseppi, p. 21.
- 30 Murphy, p. 43.

Chapter Forty-Six

John Law and the Bank of Scotland

But France would have to wait because in 1704 Law returned to the land of his birth to rescue the Bank of Scotland, which was as much a failure as the Bank of England, which it strove to imitate, had been a success. There was no shortage of money in England. The policy of stealing Church property which the English crown had pursued throughout the 16th century ensured that England had enough specie to create a bank. This was not the case in a poorer country like Scotland, where there “was a near unanimity amongst the Scottish pamphlet writers, in 1704-5, about the shortage of money and the need to find a new source for expanding the money supply so as to overcome the difficulties caused by this shortage and the inadequate banking services provided by the Bank of Scotland.”¹ Scotland was caught in the classic vicious circle of all developing countries. Lack of money constricted the growth of trade, and lack of trade prevented the accumulation of money. In the opening lines of *A Proposal anent Usury and Procuring of Money* (1705) the anonymous commentator complained that money was so scarce that all ranks of society were experiencing difficulty in making payments for everyday expenses.²

Lacking native gold and silver reserves, Scotland sought the same remedy as Spain two centuries earlier, by founding colonies in the New World, in particular in Panama, where gold, so everyone thought, was plentiful. The colony in Panama (or Darien, as it was called then) was another brain-child of Bank of England founder William Paterson. This project, however, had an outcome that was distinctly less successful. In fact, it was an unmitigated disaster, both personally for Paterson and financially for his backers. Paterson’s wife and son perished in the attempt to establish a Scottish entrepot on the isthmus separating the Pacific and Atlantic Oceans, and all of those who had invested in the scheme had been ruined, bringing down the newly founded (in 1695, one year after the Bank of England) Bank of Scotland.

Fearing competition from the Company of Scotland, the official name of Paterson’s venture, the East India Company persuaded the English House of Commons to retaliate financially. In an act that was eerily similar to the seizure of \$7 billion of Icelandic banking assets three hundred years later, the House of Commons seized the Darien Company’s paper and threatened its leading organizers, including Paterson, the founder of the Bank of England, with criminal prosecution. Paterson as a result withdrew

from the venture and with his exit the English investors either stayed away in droves or withdrew their money from the scheme, insuring its collapse.³

Instead of solving Scotland's monetary woes, the Darien Company made them worse. The Scots found neither gold nor silver in Panama. Worse, the call on Scottish capital by the Darien Company stock offering "acted as a type of vortex taking money out of the Scottish economy. . . . The failure of the Darien company drained specie out of Scotland and reduced the potential reserve base of the Bank of Scotland."⁴ The problems of the Darien Company allied with the depressed level of economic activity led to a run on the Bank. The bank was forced to suspend payments on 18 December 1704.⁵ As a result, money was in very short supply in Scotland in 1705.⁶ Since money was the prerequisite for trade, the disappearance of the former led to a diminution of the latter. As a result, the Scottish economy was "wanting both coin and trade."⁷

The financial crisis of 1704 provided an opportunity for John Law, who had started writing on money and banking issues in 1701. As fellow Scot David Hume had indicated, desperation is the necessary condition for financial innovation. Scotland desperately needed someone to cure her economic ills, and John Law was convinced he could rectify the situation, because the financial crisis had "created a propitious set of circumstances in which monetary recommendations might be heard."⁸

Within a year of the collapse of the Darien Scheme and the run on the Bank of Scotland, Law had completed a short monograph entitled *Money and Trade Considered with a Proposal for supplying the Nation with Money*, "a majestic work towering over the contemporary writings of the early 18th century."⁹

In *Money and Trade*, which was published in Law's native Edinburgh, Law set out to prove "that the Bank of Scotland was not the solution to the Scottish problem, that silver was an inappropriate medium of exchange, and that the traditional methods of altering the money supply by tampering with the nominal value of the currency would not work."¹⁰ Law did this by showing how:

Trade and Money depend mutually on one another; when Trade decays, Money lessens; and when Money lessens, Trade decays. Power and Wealth consists in Numbers of People, and Magazines of Home and Forreign Goods; these depend on Trade, and Trade on Money. So while Trade and Money may be affected directly and consequently; that what is hurtful to either, must be so to both, Power and Wealth will be precarious.¹¹

Law clearly understood the importance which money played in the national economy. He understood that "There was a strong relationship between the employment and the amount of money in circulation"; that "Money is needed to bring the buyers and sellers of labor together."¹² With-

out money, the national economy would be forced to return to the primitive level of economic activity which existed under barter. Money was needed to bring transactors together because, as Law put it, "work cannot be made without money."³

When he wrote *Money and Trade*, Scotland was suffering from an insufficient supply of silver money.¹⁴ Scotland's lack of specie was aggravated by the fact that the discovery of the silver mines in America had flooded the rest of Europe with specie. This created an oversupply which caused the value of silver to fall, aggravating the situation in Scotland even further. Not only did Scotland lack silver, the silver she possessed lacked the value which silver had had a century before. This did not pose an insurmountable project because credit can become money if it "can be used to purchase goods and services demanded by the employed workers."¹⁵

Before Law could persuade the Scottish Parliament to implement his plan for a state bank, he had to define what money was. To do that, he began his treatise on money with a discussion of what has come to be known as the paradox of value: "Water is of great use, yet of little value," Law wrote, "because the quantity of water is much greater than the demand for it. Diamonds are of little use, yet of great value because the demand for diamonds is much greater than the quantity of them."¹⁶

Although Plato mentions it in the *Republic*, John Law was the first economic thinker of the modern era to discuss the paradox of value. Adam Smith mentions it in *Wealth of Nations*, which appeared 71 years later, but he fails to cite Law as his source. Law failed to cite previous sources as well. In 1696 John Toland translated Bernard Davanzati's 1588 book *Lezione delle Moneta* into *A Discourse upon Coins*, which contained the following passage:

A natural calf is far more noble than a golden one, yet how much inferior in price? An egg that was bought for half a grain of gold, kept Count Ugolino alive in his castle for ten days, which all the treasure in the universe could not do. What does more nearly concern our lives than corn? Nevertheless, ten thousand grains thereof are sold for one of gold.¹⁷

John Locke, who knew Toland from meetings in Holland at the Bentinck estate, echoed the same idea when he wrote:

But, as soon as even water (for air offers itself everywhere, without restraint or enclosure, and therefor is no where of any price) comes anywhere to be reduced into any proportion to its consumption it begins presently to have a price, and is sometimes sold dearer than wine. Hence it is that the best and most useful things are commonly the cheapest, because though their consumption be great, yet the bounty of providence has made their production large and suitable to it.¹⁸

The conclusion which Law draws from this paradox is that value depends more on rarity than use:

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Goods have a Value from the Uses they are apply'd to; And their Value is Greater or Lesser, not so much from their more or less valuable, or necessary Uses: As from the greater or lesser Quantity of them in proportion to the Demand for them.¹⁹

Money is no exception to that rule. Since supply and demand determine the value of every good, Law claimed that money had “no intrinsic value.” Or as he put it: “money is not the value for which goods are exchanged but the value by which they are exchanged: the use of money is to buy goods, and silver, while money, is of no other use.”²⁰

In his *Essay on a Land Bank*, Law defined money as “the measure by which goods are valued, as the value by which goods are exchanged, in which contracts are made payable, and payments are made.”²¹ In *Money and Trade*, he refined that definition when he claimed that money was “the measure by which goods are valued, the value by which goods are exchanged and in which contracts are made payable.”²²

In cataloguing the characteristics of money, Law omitted a crucial feature of money, namely, store of value. The omission is most probably traceable to his life as a gambler. During his ten-year stay on the continent, Law had earned his keep as a gambler, an occupation which destroyed any sense he might have had of the relationship between money and labor. The easy-come-easy-go attitude that gambling fosters likewise destroyed any sense that money needed to store and retain the wealth that labor had attained.

It was during this period on the continent that the first studies in probability theory were published, studies which would have aided Law in calculating the odds in games like Faro and Bassett, at which he excelled. The exiled Huguenot genius Abraham de Moivre (1667-1754) made a living in London “by calculating the odds for gamblers at Slaughter’s Coffee House in Long Acre.”²³ Law read Jacob Bernoulli’s *Art of Conjecturing* as well as Pierre Montmort’s *Essai d’analyse sur les jeux de hazard*, which introduced “the concept of randomized or mixed strategy.”²⁴

His informal education allowed Law to become a master of calculating the odds of a particular situation, which led the Earl of Stair to claim that he was “a man of very good sense, and who had a head fit for calculations of all kinds to an extent beyond anybody.”²⁵

Unfortunately, Law’s education at the gaming tables also ruined his economic sensibilities. Law had the unfortunate habit of using gambling techniques to promote his economic policy initiatives. The most famous and disastrous example was the futures contract Law arranged with Lord Londonderry in September 1719, when he contracted to buy South Sea shares at a price that he was betting would be lower than shares in the Mississippi company, which Law had founded. The bet was an emphatic way of expressing Law’s belief in the superiority of the financial system he had

erected in France. Instead of driving the South Sea shares down, however, the Mississippi bubble drove them up creating a debt which Law could not repay. The wager also had Law's marketing hallmark. Law was always prepared to put money down to back his judgment. What began as a "marketing ploy" ended up being a debt which followed him throughout Europe and eventually to his grave. It was also an indication of how gambling complicated his life when his wagers went bad.

Since gambling is the antithesis of labor, gambling corrupted Law's sense of money as a store of value and wealth as the fruit of labor. "Power and Wealth," Law wrote, "consists in Numbers of People, and Magazines of Home and Forreign Goods; these depend on Trade, and Trade on Money."²⁶ Law's catalogue involved an inversion of the true economic order which was typical of the Age of Mercantilism, which placed inordinate value on money. Law differed from the Mercantilists not in the importance he attributed to money but only in his view of what constituted money.

Law opposed lotteries as "contrary to the interest of the state" because they undermined the value of work by depriving the worker of:

the little money that they earn from their work, rendering them unhappy with their condition, and giving them the desire to enrich themselves by resorting to chance and fortune, the servants having no more money are tempted to steal from the master so as to have funds for the lotteries, and the bourgeois spend money on these lotteries that they should use for their business and to pay their creditors. It is certain that these projects should not be permitted in well-run states.²⁷

There is no reason to believe that the same caveats would not apply to Law himself and that the habit of gambling with chips that could be cashed in at the end of the evening blinded him to the connection between money and labor. This is deducible from Law's own account of how money succeeded barter and liberated commerce, even if Law ignored the conclusions implicit in his own account, as when he wrote: "Before the use of Money was known, Goods were exchange'd by Barter, or Contract; and Contracts were made payable in Goods. This State of Barter was inconvenient, and disadvantageous. . . . In this State of Barter there was little Trade."²⁸ Barter, according to virtually every economist who considered it, was universally recognized as inconvenient, a fact recognized by Law when he wrote that:

The Losses and Difficulties that attended Barter, would force the Landed-men to a greater consumption of the Goods of their own Product, and a lesser Consumption of other Goods; or to supply themselves, they would turn the Land to the product of the several Goods they had occasion for; tho only proper to produce of one kind. So, much of the Land was unlabour'd, what was labour'd was not employ'd to that by which it would have turn'd to most Advantage, nor the People to the Labour they were most fit for.²⁹

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Law claims that "Silver as a Metal had a value in Barter, as other Goods; from the Uses it was then apply'd to."³⁰ He fails to add that silver was useful because it was universally accepted as currency, and that universal acceptance conferred on it, therefore, intrinsic value. Over time, gold and silver were the only media which would allow money to supplant barter as a form of exchange because they are the only materials that were universally accepted as valuable. That universal acceptance conferred on silver and gold intrinsic value.

Pesch agrees with Law, who is simply recounting the conventional narrative about how money succeeded barter as the medium of exchange, when he writes that: "In the course of time, the precious metals edged out all other means of exchange, and they came to be used also exclusively for accomplishing the widest variety of exchange transactions, and to measure exchange values or to carry over values in time and place."³¹

Pesch and Law part ways, however, in their explanation of why precious metals edged out all competitors. Law feels that the outcome was fortuitous, because it was based on use. Pesch, however, feels that "The use of precious metals for monetary purposes . . . was based on . . . the objective qualities of gold and silver." In other words, any medium which was not "suited itself for use among all," or which "in its durability and permanence" did not possess "the guarantee of constant value, so that the course of time or other influences could not diminish its value," or "a small quantity" of which was not "enough to command many or important goods in exchange" would not have been accepted as money by those looking for an alternative to barter.³²

Law, however, was adamant in insisting that silver was not satisfactory as money. Silver, he felt, did not possess sufficient stability of value. In fact, compared with land, silver "had been subjected to a continuous fall in value" because of "1) the over-expansion in the global supply of silver relative to the demand for silver and 2) debasements in the silver coinage by European monarchs."³³

The issue goes deeper than that. According to Law, silver (and gold) lacked intrinsic value because:

no Goods have any Value, but from the uses they are apply'd to, and according to the Demand for them, in proportion to their Quantity. Thus Silver having a Value, and Qualities fitting it for Money, which other Goods had not, was made Money, and for the greater convenience of the People was Coin'd. . . . There is nothing of Humour or Fancy in making Silver to be Money; it was made Money, because it was thought best Qualified for that use.³⁴

Once again, Law refuses to ask the pertinent question, which is why only silver (and gold) were recognized as useful. The answer is intrinsic value. Gold and silver possessed intrinsic value because of their objective

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properties (superior fungibility, malleability, great value in small bulk and volume, etc.) and the universal recognition accorded to those objective properties, but most importantly because silver and most especially gold represented an enormous concentration of human labor in a very small volume that would retain its value virtually forever. Gold was an extremely good store of value that was (precisely because of that fact) an extremely poor medium of exchange. Gold was great for hoarding but bad for spending. Gold strangled every economy upon which it was based until well into the 20th century, when it finally failed as the basis for the modern economy and was replaced by paper money, guaranteed by the sovereign, based on credit, which was in turn based on the future productivity of the entire nation. Money, in other words, found its ultimate source in labor, but not before basing itself on gold as a concentration of labor and then on paper as a representation of gold, which is precisely where John Law enters the story of money.

Since he felt that "other Goods which have the Qualities necessary in Money, may be made Money equal to their Value, with Safety and Convenience," Law concludes that land would make a better medium of exchange than silver, primarily because land has been shown to possess greater stability of value than silver. The amount of land is fixed and so its value cannot diminish as silver did when the Spaniards brought "great Quantities into Europe as they can get wrought out of the Mines." Land, although fixed in quantity, is "capable of improvement" which will ensure that it "will continue to rise in value," whereas "Silver will continue to fall in value, as it increases in quantity, the Demand not increasing in proportion." Comparing silver to the value which land and goods had 200 years ago, Law concludes that

Money is only worth the 20th part of Goods, and the 57th part of Land, it was worth 200 years ago. Part of this difference is from the Improvement made on Land, and the greater Demand for Land, the Quantity being the same, whereby its value is greater: The rest of the Difference is, from the Money being more encreas'd in quantity, than in Demand, whereby its Value is lesser, and its use lower: As likewise from its being alter'd in the Denomination.³⁵

Since land is the prime candidate to replace silver as money because silver lacks stability of value, and since Scotland has no natural reserves of gold and silver but plenty of land, Law proposes that the Scottish Parliament "make money of Land" by creating a land bank.

Law was by no means the first advocate of a land bank. Land bank proposals became most prolific after the establishment of the Bank of England in 1694, when the landed gentry felt that they were losing ground to the merchants and needed a bank of their own. Like the lower German nobility at the time of the Fuggers, the landed class in England and Scotland was

having difficulty monetizing their main asset. The founding of the Bank of England only exacerbated the problem. The author of *A Discourse on the Late Funds* complained that "Gentlemen of yearly estates have borne the burden of taxes, while the monied men have paid little or nothing for the carrying on the war or support of the government, but on the contrary many of them have enriched themselves by it."³⁶

William Potter proposed a land bank in England in 1656. Why, Potter wondered, should England's money supply be tied to its silver when "that money constituted only one-hundredth of the wealth of the nation and that the expansion of the money supply, collateralized by merchants' wealth, would lead to an expansion of output"?³⁷ Like Law, Potter believed that expanding the money supply would bring about an expansion in trade, the opposite of the vicious circle afflicting Scotland at the time:

the more their hands are filled with such money, by the increase thereof, so much the more does the sale of commodity, that is trading, increase; and this increase of trading does increase riches and that so much the faster; because such riches increase men's expenses therefore their trading in therefore their riches and so perpetually; by which means then, you see the door is opened to the increase of wealth.³⁸

Like Law, Potter felt that the money supply could be expanded without causing inflation because the economy, strangled by a shortage of specie, was holding down demand. As long as the increase in the money supply did not exceed demand, there would be no inflation of the currency. The stagnant economy was, for Potter, ipso facto proof of a shortage of money.

To remedy that situation, Potter proposed the creation of a bank based on the assets of a group of tradesmen. The bank would issue paper notes, redeemable in six months' time, against three sources of collateral, which is to say, against houses, land, ships, goods, etc. a proposal virtually identical to the one which Law would put before the Scottish Parliament some fifty years later although there is no evidence that Law was familiar with Potter's writings.

The English gynecologist Dr. Hugh Chamberlen had been proposing various land bank schemes since November 1689 and was "Law's chief rival before the Scottish Parliament,"³⁹ but Law held Chamberlen's proposal in contempt because he felt that Chamberlen overvalued land.⁴⁰ When Chamberlen was forced to "retire to Holland on suspicion of debt,"⁴¹ Law had the field all to himself.

To capitalize on land as a source of money, Law had to bring three elements together: land, paper currency, and a state bank. But in order to make land the basis of his currency, Law had to first solve the commensurability problem which precious metals solved when money succeeded barter as the medium of economic exchange. Since use determines value,

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Law claimed that paper was superior to silver:

The other Qualities necessary in Money, Are, 1. Ease of Delivery. 2. Of the same Value in one place to what it is in another. 3. To be kept without Loss or Expense. 4. To be divided without loss. 5. To be capable of a Stamp. Paper Money has these Qualities in a greater degree than Silver. 1. It is easier of Delivery: 500 lib. in Paper may be payed in less time, than 5 lib. in Silver. 2. It is nearer the value in one place to what it is in another, being of easier carriage. 3. It can be easier kept; taking up less room. And without loss: Because it may be Exchanged at the Office. The Consumption of Paper is not of so much value as the Consumption of Silver: The Consumption of the Paper is a loss to the Office, the Consumption of Silver is a loss to the Owner. 4. It can be divided without loss: Because it may be changed for lesser Notes at the Office. 5. It is capable of a Stamp, and less liable to be Counterfeit. The Practice of most Trading Nations confirms, that Paper is more Qualified for the Use of Money, than Silver; providing it have a Value. In Holland Silver is pledg'd, and Paper is used as Money. That Land pledg'd is a better Value than Silver pledg'd, is evident from what has been said.⁴²

The key caveat in the midst of this paean to paper money comes when Law claims that "Paper is more Qualified for the Use of Money, than Silver; providing it have a Value." Law's caveat is reminiscent of Voltaire's claim that after Law's Mississippi bubble burst in France, "paper was now back to its intrinsic value."⁴³ Paper may have an intrinsic value, but it is significantly lower than the value of either gold or silver. For a paper economy to work like a specie economy, the buyer would have to carry paper equivalent in value to the object he hoped to purchase, something that would make the stone wheels on the island of Yap seem convenient by comparison.

Money must ensure commensurability or else it cannot be money, and the only way paper can insure commensurability is via the one medium that has proven itself over time, namely gold and silver. Gold and silver can represent land because gold and silver are land in a highly concentrated form. Gold and silver are also a highly concentrated store of labor. Combine that with intrinsic qualities like durability, and you have a medium which has universal acceptance and, therefore, intrinsic value. Paper cannot represent land per se without taking both credit and human labor into account, and the fact that credit must make contact with human labor before it can create value. The only economic actor who can guarantee all of these transactions is the sovereign, which is why his image is on the coin or bill.

At one point Law claims that the money he is proposing will be issued as silver certificates, when he writes, "The Paper-money propos'd will be equal in value to Silver, for it will have a value of Land pledg'd, equal to the same Sum of Silver-money, that it is given out for."⁴⁴ This is the only proposal that makes sense because it recognizes that only silver (or gold) can provide the crucial intermediary which allows the economy to make

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equivalences between land and the goods that the value of the land can buy.

But this admission brings him back to square one, the need for the silver, the lack of which has set off the search for a more plentiful alternative as money. Faced with this alternative, Law simply eliminates silver as the necessary medium of commensurability and claims that land alone would suffice. While land “could not be brought to a standard, yet land money will.” He continues:

It may be Objected, that Paper went because Silver could be got for it when Demanded, or at a certain time. That was very reasonable, but would not be so in this case: The Security pledg'd for that Paper Money, was Silver. The Security pledg'd for this Paper Money, is Land.

The ambiguity revolves around the term “security pledged.” In normal parlance, the term means collateral for a loan, but if that is the case here then the money problem remains unsolved because we are talking about land as the basis of credit and loans and not the backing for a national currency. Land has intrinsic value but it cannot function as a medium of exchange. Paper, on the other hand, is an excellent medium of exchange, but it has no intrinsic value. The only thing which has both intrinsic value and the compactness that allows it to be a medium of exchange is silver (or gold), but that brings us back to square one, which is why Law ignores the conclusions which his own premises necessitate and tries to overcome the flaw in his argument with rhetorical flourish as when he writes:

Land has other Qualities fitting it for the Use of Money, that Silver has not. Land apply'd to the Use of Money, does not lose any of the other Uses it is apply'd to: Silver cannot serve the Use of Money, and any of its other Uses as a Mettal. . . . From whence it is evident, that Land is more Qualified for the Use of Money than Silver; and preferable for that Use tho Silver were the Product of Scotland: Being more certain in its Value, and having the Qualities necessary in Money, in a greater degree: With other Qualities that Silver has not. So more capable of being the general Measure by which Goods are valued, the Value by which Goods are Exchanged, and in which Contracts are taken.⁴⁵

Intoxicated by his own rhetoric, Law says that paper money based on land will increase in value because land increases in value, something akin to saying that a picture of a kitten will grow when the kitten becomes a cat:

Land is what is most valuable, and what encreases in Value more than other Goods; so the Paper Money issued from it, will in all appearance not only keep equal to other Goods, but rise above them.

Law seems to have forgotten the principle of use which allowed him to claim that anything could be money in the first place. That principle insures that the value of money will be a function of supply and demand, not a function of the value of the land on which it is based. Land has intrinsic value but it is not suitable as a medium of exchange. Paper is suitable as a

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medium of exchange but it lacks intrinsic value. The only medium which has both necessary characteristics is silver (or gold). Paper can represent value, but it cannot be value. In order to be money, money must possess value, which is to say that it must be recognized as such. The sovereign is the only person who can recognize it as such. Since there is no universal sovereign, gold and silver, which are universally recognized as valuable, must serve as the international medium of exchange. Therefore, paper can only be money if it represents gold as stored labor or if the sovereign guarantees it as credit on future labor. Scotland did not have enough silver to represent its labor. As a result the economy contracted because of lack of demand leading to a state of chronic deflation. But more importantly—and here is where Law's experience in Scotland differs from his experience in France—Law could not persuade the sovereign to issue credit based on the nation's future labor. Law ignored the crucial importance of labor in the economy, and Gleeson sees gambling as the crucial link in explaining why:

This vision of money as a functional medium—with no intrinsic value but backed by something of stable value, the gambler's chips that can be cashed in at the end of the evening—leads him to his central suggestion, for a bank with the power to issue notes using land as security.⁴⁶

In terms of creating money, Law was closer to the mark when he claimed that "The use of Banks has been the best Method yet practis'd for the increase of Money."⁴⁷

If 15000 is suppos'd the Money in Bank, and 75000 lib. of Notes out; 60000 lib. is added to the Money of the Nation, without Interest: For what is pay'd by the Borrowers, is got by the Proprietors. As the Money of the Nation encreases, the Credit of the Bank encreases, and the Sum of Notes out is greater; And so far from making the People less sensible of the condition of the Country, a surer Judgment of the state of Trade and Money may be made from the Books of the Bank, than any other way.⁴⁸

If Law had paid closer attention to the paradigmatic Bank of Amsterdam, he would have seen that the bank doesn't so much create money when it issues paper in exchange for the deposited gold, rather it is extending credit based on the gold in the same way that a credit card extends a month of free credit in the hope of luring the unwary into the trap of usury. This misunderstanding led Law to claimed that "credit is money" in his description of how fractional reserve banking works:

But no Laws can make it go further, nor can more People be set to Work, without more Money to circulate so, as to pay the Wages of a greater number. They may be brought to Work on Credit, and that is not practicable, unless the Credit have a Circulation, so as to supply the Workman with necessaries; If that's suppos'd, then that Credit is Money, and will have the same effects, on Home, and Forreign Trade.

When money is created as debt, a race ensues between usury and labor to see which crosses the finish line first. If money makes successful contact with labor, it can create a surplus which over the short haul can be greater than the usury burden and therefore make a profit which can pay back the debt. Because of compound interest, the longer the term of the loan, the less likely a favorable outcome will ensue from borrowing. Rolling over old loans with new loans postpones the inevitable.

Credit, in other words, is not money; it is the temporary use of money in search of labor attempting to create value. This may be two different ways of saying the same thing for a gambler who cashes in his chips at the end of the night, but the two things are not identical when it comes to the functioning of the national economy. In order for credit to become value (or money), it must make contact with human labor. Traditionally, this has happened by transforming labor into a universally valued commodity like gold or silver. Unfortunately, there has rarely been enough gold and silver to give adequate expression to the productivity of human labor. As a result reliance on gold and silver as a representation of human labor and a medium of exchange have led to chronic deflation.

To function properly, money must maintain its contact with human labor. Traditionally, that has meant that it must have some relationship to either gold or silver, which are extremely concentrated forms of human labor. The English denomination pound refers to a pound of silver. To say, as the proponents of land banks did, that: "While the Bank of England promised to pay silver money when demanded, the land bank promised 'a payment of land when demanded'"⁴⁹ was akin to saying that you could be a European without first being a German or an Italian. The term "payment" applied to land, as in "payment of land" was an equivocal use of the term that belied a fatal conceptual flaw when it came to the nature of money. Payment implies money. Payment in something other than money is an equivocal use of the term that ultimately subverts the meaning of the word.

Land cannot serve as money. It cannot serve as a medium of exchange because it is by nature unwieldy. Paper can be issued on land, but that is known as a deed, which is not negotiable currency. Because of the nature of land, it must be sold, which is to say, transformed into money before it can serve as payment. To be accepted as money, paper must be based on money, and the only thing which qualified at that time as money was gold and silver. Paper money, therefore, had to be tied to gold or silver or both.

From the historical perspective at the time of the debate over Law's land bank proposal in Scotland, paper money was an innovation that was unknown in Scotland and where it was known it was less than a century old even in advanced mercantile centers like Holland. Paper was accepted in exchange for specie at the Wisselbank because the Wisselbank promised

to redeem their paper at any time, and that paper was backed by a 100 percent reserve policy. Assurances like this were necessary to generate the trust that allowed skeptical merchants to part with their gold and silver. Paper money was like a kite. It could only fly when it was tethered to the ground of precious metal.

Since then, the history of finance has shown that when that connection gets severed, a paper currency may fly erratically for a short space of time, but, like all fiat currencies, it invariably crashes. Fiat currencies last on the average 47 years. Every advance in the evolution of money from its beginnings as the successor to barter required an increase in trust. With the creation of the coin, the state became the guarantor of trust, but the state could only go so far. The intrinsic value of gold filled the gap. When trust failed there was a tendency to return to a previous, more primitive level of exchange.

Writing in 1964, when faith in government was at an all-time high in the United States, Rupert Ederer honored John Law as a prophet when he claimed that:

the same John Law who is today widely criticized for his monetary adventures was one of the first men to clearly enunciate the bold principle that monetary issue should conform to the demands of trade. This principle today underlies modern commercial banking theory and is the implicit norm of issue.⁵⁰

When the Lydians discovered the agio which accrued to lumps of metal once they were turned into coins, the trajectory leading to “pure money,” i.e., money whose value is independent of any commodity value, was launched. Law took a giant step forward on that trajectory. As a result of Law’s innovations:

Money became more and more functional with its material substance becoming increasingly symbolic until it virtually disappeared altogether. In the latest stage of evolution, the bulk of our money supply exists simply as an entry on commercial bank ledgers.⁵¹

The material substance of the dollar disappeared completely in 1971 when President Nixon took America off the gold standard. By the beginning of the 21st century, the disappearance of material substance from money looked like a *fait accompli* which was henceforth going to be permanent. Like Ederer, Murphy praises Law as a visionary who has been vindicated by the march of economic history:

in the centuries that followed, Law was attacked for not understanding that the monetary system had to be anchored to metallic money. The last link to the gold anchor was cut in 1971 when the US refused to convert the dollar into gold at a fixed price. The world now survives, and indeed thrives, without any gold or silver link. Law’s conceptualization of a specie-less economy is now a reality.⁵²

Murphy wrote those words in 1997, just as the dot.com bubble⁵³ was gathering steam and around ten years before the sub-prime real estate bubble burst in 2007. In the aftermath of the crash of 2008, gold has received renewed interest because of the collapse of trust that has plagued financial markets as a result of the wretched excess which has characterized finance since the repeal of the Glass-Steagel Act in 1999.

What Ederer said about the evolution of money leading to the disappearance of material substance may eventually prove true, but that will happen only with the restoration of trust, which seems a long way off. Ederer, sounding eerily like John Law's attack on silver in *Money and Trade*, claims that those who see intrinsic value in gold are blinded by "time bound eyes":

Clearly, then, if gold occupied a favored position as money for a time, it did so not because it was gold, but because it was the commodity which men for a time found generally desirable. Any predilection for it which persists today is based more on tradition or even sentiment than reality. The ideal features which were frequently ascribed to gold . . . were viewed through time-bound eyes.⁵⁴

But this charge is a double-edged sword. What may have seemed obvious in 1964 was not obvious in 1704, nor for that matter is it obvious in early 2012 when gold was selling at around \$2,000 an ounce. It was certainly not obvious when the Scots were debating Law's proposal. At that time money was gold and silver, not paper. No one is denying that economies, especially Scotland's, were in a state of chronic deflation during the 17th century, but the need to expand the money supply by the creation of bank money at this time was only conceivable if that bank's paper were tied to precious metal reserves. After 25 centuries of reliance on the coin as specie, the average European, much less the average Scot, was not going to abandon everything he knew about money as precious metal, including most especially that it was a store of value, in favor of a scheme concocted by a gambler and murderer on the lam from English justice.

In late June 1705 the Scottish Parliament rejected Law's proposal as "too chimerical to put into practice."⁵⁵ Law had failed to gain the confidence of the sovereign as the guarantor of the future labor of the nation. With confidence went credit and with credit went money, and in the absence of all three Law's paper money proposal could not succeed. Since the main business discussed at that session was the union between Scotland and England, Law's status as a fugitive from English law probably played a role in the rejection. Law and his family returned to the continent in late 1705 for another spell of rambling and gambling, a long way from home.

Endnotes

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- 4 Murphy, p. 72.
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- 37 Murphy, p. 46.
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- 50 Rupert J. Ederer *The Evolution of Money*, (Washington, D.C.,: Public Affairs Press, 1964), p. 131.
- 51 Ederer, *Evolution*, p. 135.
- 52 Murphy, p. 332.
- 53 Wikipedia: The dot-com bubble (also referred to as the Internet bubble and the Information Technology Bubble^[1]) was a speculative bubble covering roughly 1995–2000 with a climax on March 10, 2000,
- 54 Ederer, *Evolution*, p. 138.
- 55 Gleeson, p. 86

Chapter Forty-Seven

John Law and the Bank of France

By November 1706 Law was back in Paris, where he submitted a proposal to the French authorities entitled, "*Memoire touchant le monoies et le commerce*." Chamillard, Louis XIV's controller general, laughed off Law's proposal and never submitted it to the King, but this time around Law, who set off on another round of travels to his old haunts in Italy and the Low Countries, had plenty of influential contacts at the French court and was not going to be put off by a bureaucrat who knew less about finance than he did.

Wars had continued unabated during the years following Law's hasty departure from the English equivalent of death row, and the governments which waged them had reached the end of their supply of specie. The War of Spanish Succession which began in 1702 ended in 1713, the year before Law arrived in France again. These wars had drained specie from all of the major European powers "as well a greatly increasing state borrowing and indebtedness." There was, therefore, clamor for a new type of monetary system especially in light of the great financial innovations which had taken place in London during the same period of time. The Bank of England had been established in 1694, the new East India company in 1698 and the South Sea Company in 1711.² When Law returned to France in 1714, he did so knowing that the financial world had changed dramatically, offering unique opportunities to anyone who understood how it had changed.

His arrival was not unnoticed. The Parisian police noted that Law was "living in style at a house on the place Louis-le-Grand and making a fortune at the gaming tables," but since he was not suspected of involvement in criminal or seditious activity, the authorities decided to "leave him alone."³ The Earl of Stair, who began his duties as ambassador to the court of Louis XIV on 23 January 1715, met Law shortly after his arrival and was impressed by Law's "good sense" and his "head for calculations of all kinds,"⁴ of a sort which he had never seen before.

This time the odds were on Law's side. Within a year of his arrival, Law had persuaded the king to accept his plan for a bank. By July of 1715, Law was claiming that the king had agreed that Law would manage the project. Louis XIV was hopelessly in debt and his court was tied to a finance ministry that had gotten rich off of a system of tax-farming which reminded Law of rats in a granary.

Desperation in financial matters was the mother of invention, and Law

was nothing if not inventive when it came to finance. But time was running out for the Sun King. On August 12, 1715, before Law could make the formal presentation of his proposal for financial reform, the king fell ill. By August 24, he had been diagnosed with gangrene, and at 8:15 A.M. on September 1, Louis XIV died after 67 years on the throne.

Louis XIV was succeeded by his great-grandson, who was only five years old, which meant that France would once again be ruled by a Regent, in this case, the king's nephew, Philippe, the Duke of Orleans, who was 41 years old and one of Law's gambling companions.

Law and Philippe had a number of things in common. "Both were handsome, athletically built and brilliant tennis players. Both enjoyed extraordinary success with the opposite sex."⁵ Like Law, the Duke of Orleans was "A multitalented man of abundant mercurial intellect, he was a free-thinker who was fascinated by developments in music, literature, philosophy and science, including the science of money."⁶ The death of the king enhanced Law's chances of reaching his goal, even if it led to a temporary postponement.

Time was on Law's side. The glorious cultural achievements of *le grand siècle*, not to mention the wars that Louis XIV had fought, had not come cheaply. In fact, they had left France bankrupt at Louis's death. "The overall debt of the state was over 2 billion livres with interest payments running at an annual 90 million livres."⁷ The debt to GNP ratio was 167 percent. As a result, long term government debt was selling at a 50 percent discount.

The debt, onerous as it was, was compounded by a corrupt and inefficient system of taxation, which meant that revenues constantly fell short of expenses. That meant that the government had to borrow to cover expenses. During the War of Spanish Succession, state expenditure rose from 175 million livres in 1702 to 264 million in 1711. Of that sum, two-thirds had to be borrowed at ruinous rates of interest from a banking and credit system in which "the most moderate money-lenders charged 12 to 15 percent."⁸

Law came to power because of the collapse of the financial system under Louis XIV. France suffered from both monetary problems and a crushing debt, the latter exacerbating the former. France's financial crisis "manifested itself as an excessively high level of state indebtedness and a very high level of interest rates, the latter resulting from the inability of the state to service the debt."⁹ The two problems were related, but no one with any political power knew how, and those who knew how lacked the political power to change the situation because they were frozen out by those profiting from the system. The 2 billion livre debt which Louis XIV bequeathed to France on his death was owed to a group of 40 private financiers, who also controlled the collection of taxes.¹⁰

The rich nobility controlled a network of financiers, who controlled

how revenue was collected. It was a classic conflict of interest. Since inadequate tax revenues were the main cause of government borrowing, the financiers, who controlled both tax collection and government lending, made money coming and going. The money they skimmed from tax collection caused a deficit, which caused the government to turn to them to borrow money—money they should have collected in taxes—at 15 percent interest. The backers of a system this lucrative were not going to give up without a fight, and they provided the main opposition to the reforms which Law and the Duke of Orleans wanted to enact. Tax farming—the sale of revenue producing offices—seemed like a quick fix, but it only exacerbated the problem. The tax farmers had become the indispensable intermediaries in the financial system. They caused the revenue shortfall by skimming off tax revenue for years in advance, and they also lent the government money to cover the shortfall their practices created. As a result, “the whole of the French tax system was mortgaged to the financiers for three to four years into the future on the death of Louis XIV.”¹¹

When the Crown finally had to admit that the state was bankrupt, its first reaction was typical of the Age of Mercantilism, which saw money as the solution to every problem. Once Colbert, the great architect of French mercantilism had passed from the scene, his successors resorted to the classic solution which sovereigns chose when faced with an inadequate money supply. They debased the currency. “Between 1690 and 1715 the currency was revalued 40 times to make the limited gold and silver available stretch further.”¹² When that didn’t work, the king melted down his golden plate and silver furniture to replenish the treasury.

Needless to say, this didn’t work either, primarily because of the eternal asymmetry at the heart of a usury-based economy. The asymmetry is based on a simple fact: *Usura est contra naturam*. No natural resource, especially something as rare as gold and silver, can ever keep up with compound interest. The Bourbons could have learned a lesson from the Habsburgs, but they didn’t. If all of the gold and silver from the mines of the New World couldn’t save the Habsburgs from bankruptcy, then melting down Louis XIV’s plates and spoons wasn’t going to save the Bourbons from the same fate either. Usury, as it always does, concentrated wealth into fewer and fewer hands. That led to a contraction of the economy. That meant that the money supply began to drain out of circulation, which led to a further contraction of the economy. According to Du Tot:

Credit which supplemented specie had entirely disappeared. The shortage of credit was universal, trade was destroyed, consumption was cut by half, the cultivation of lands neglected, the people unhappy, the peasants badly dressed and nourished, debtor to the King, his lord, the money-lender, and unable to pay anyone.¹³

The shortage of money led to a contraction of trade, which in turn led to an even greater shortage of money, and so on until this vicious circle caused the economy to seize up in chronic depression. "The farmers had difficulty in making payments because money was scarce and agricultural commodities were selling at too low a price. Accordingly, the volume of trade fell each day."¹⁴ The Mercantilist emphasis on gold as money led naturally to the conclusion that "lack of money lay at the root of all of France's evils,"¹⁵ but the real problem was debt, compound interest, and usury.

As he had in Scotland, Law ignored the problems inherent to usury's usurpation of labor and concentrated instead on the relationship between money and trade. The ideas linking money and trade which he proposed in Scotland were developed further by Law in his "*Memoire sur les banques*" presented to the French authorities in July 1715. Here Law recommended the establishment of a bank on the lines of the Bank of England, that is, a credit creating bank that issued bank notes. In his opening sentence, Law, in typically Mercantilist fashion, saw the dearth of money as the source of France's problems by reiterating what he said in Scotland: "Trade and population which make the wealth and power of a state depend on the quantity and management of money"¹⁶ Once again he explained that it was necessary for a state to have a certain quantity of money proportioned to its population and that more money was necessary if more people were to be employed.

If the money supply were increased and productively employed:

the other half of the population assumed to be lazy would find work, agricultural output would increase, manufacturing output would advance, the exchange of commodities would be greater both in volume and value, a balance would be owed by foreigners, and their specie of gold or silver or bullion would flow into the country. On the contrary, if the quantity of money were reduced a part of those employed would no longer find employment, or would be employed less productively, the exchange of commodities would not be as great in volume and in value, and provided that the consumption expenditure of the state was not diminished proportionately, a balance would be due to foreigners and special or bullion would be exported to pay for it.¹⁷

Once the Regent rejected the options of bankruptcy and debasement of the currency, the stage was set for the acceptance of Law's proposal. Law was a mercantilist every bit as much as Colbert and Louis XIV. He felt that the problem was absence of money, rather than the presence of debt, which was the cause of the lack of money. Instead of debasing the currency or melting the king's plate or prospecting for gold in Louisiana, Law came up with a new form of money. Paper currency could solve France's problem because, as Law had written in Scotland, "Trade and money depend mutually on one another; when trade decays money lessens, and when money lessens, trade decays."¹⁸ The only way out of the downward spiral was

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through credit and by increasing the circulating money. Since there was a shortage of gold and silver, the answer was to establish a national bank and issue money made from paper.

In analyzing the problems facing the French economy, Law understood that the monetary crisis was exacerbated (and to some extent caused by) a financial crisis. Faced with a two-part problem—i.e., excessive debt and insufficient specie—Law proposed a two-part solution. He would link monetary policy and financial policy and use the former to correct the latter. Law felt that he could solve both problems by implementing the revolutionary changes that had taken place in modern finance. That meant first creating a bank which could issue paper bank notes, and then creating a monopoly trading company like the English East India company, which would sell shares, which Law would use to counterbalance government debt, and hence could be considered “as part of a wider concept of money.”¹⁹

France was by every measure of wealth and power superior to England, and yet England was France’s superior in commerce because it had a superior financial system. Britain succeeded because of its approach to monetary creation and government borrowing. The key to implementing those changes was the creation of a state bank. The English had done it; the Scots had not, and now it was France’s turn to catch up with the brave new financial world by following the example of the English.

The first step required solving the monetary crisis, and to do that Law needed to start a bank, which would issue paper notes as currency, solving with one stroke the monetary problem. Then, once the economy started moving again, Law would use the paper money which the bank created to buy shares in a trading company and then use that newly created equity to pay off the national debt.²⁰ After the sovereign debt had been paid off, Law would reduce the money supply to pre-crisis levels, presumable avoiding deflation along the way.

In his presentation to the Royal Council, Law emphasized the strategic nature of bank money. Britain, which was poorer than France in natural resources and had fewer people, had triumphed over their more powerful neighbor solely because they had a superior financial system: “The establishment of the bank restored order to the finances and abundance in trade and supported the Crown and the state during two long wars which cost proportionately larger sums than those experienced by France.”²¹ Law contended that France had been more powerful than England until the Bank of England was established. After that, France’s attempts to wage war, without a credit-creating bank, was analogous to a country using bows and arrows against one using firearms. Without a state bank like the Bank of England, France was doomed to defeat at the hands of the financially savvy British.

The council was unimpressed with Law’s logic and rejected his pro-

posals by a vote of 9 to 4, based on an estimation of the role which original sin continued to play in financial life: "Rouille du Coudray . . . felt that the temptation would be too great for both Law and the crown to expand credit."²² The council feared that the bank would overissue notes, as the Swedes had done with their state bank. Since the king was above the law, they reasoned, "in difficult times there was no guarantee that the bank would not be abused."²³

The Regent was disappointed but convinced that acceptance of Law's proposal was only a matter of time, and so he offered Law a retainer to stay in France, not propose his idea to a rival power, and wait until the right moment to implement his plan. The economic situation continued to deteriorate. Money was hemorrhaging out of France because of currency manipulation. By the spring of 1716 even the financiers weren't lending, and with the economy on the verge of total collapse, the council finally came around to the new economics and approved Law's plan.

In May 1716, Law became a French citizen, and with that act, the last hurdle for approval was cleared. On May 2, 1716, Law was granted letters patent for the establishment of the Banque Generale, which could issue paper money or bank notes, backed by the bank's assets of silver and gold, and which could circulate as a medium of exchange.

The initial response to the bank was distinctly underwhelming. As in Scotland, Law could not overcome the suspicions of the public. He was still viewed as a foreigner and a gambler and, therefore, not someone to whom one would exchange gold for paper.

The public perception changed, however, when the duc d'Orleans showed up at the bank in his carriage with bags of gold, which he deposited in Law's bank in exchange for little slips of paper. When his financial scheme finally took off, Law was mocked by Voltaire as engaged in negative alchemy. "Has half the nation found the philosopher's stone in the paper mills? Is Law a god a rogue or a charlatan who is poisoning himself with the drug he is distributing to everyone?"²⁴ To ensure the public that possessed the philosopher's stone, Law rewarded the earliest investors handsomely for their faith in his negative alchemy. By September 1716 Law's bank had issued 24 million livres of bank notes and was having a major impact on the French economy, prompting one newspaper to write that "Law's bank . . . has swallowed up the little trade that is taking place. . . ."²⁵

It was at this moment of history that a new concept of money emerged. England had surpassed France on the world stage because she had learned how to monetize her sovereign debt and France hadn't. Money, Law felt, was no longer specie; money was not only the solution to the debt problem; money was now in fact debt. During the decade which stretched from the founding of the Bank of England to the founding of the Bank Generale in

France which constituted his *Wanderjahren* on the Continent, Law suddenly realized that:

Money and debt are closely linked, and at times are synonymous, in that the creation of one usually engenders the creation of the other. Interpreted at the individual level, money is an asset and debt is a liability. One man's financial asset is another man's financial liability. At the institutional level money, in the form of deposits, represents the liability of financial institutions, whereas debts, in the form of loans represent their assets.²⁶

Now that money was debt there was no more need of gold and silver. Law felt that the concept of specie money, which existed as an asset without any corresponding liability, was outmoded. If France were to create a state bank according to the new understanding of what a bank was, the money of a depositor needed to be used simultaneously by another individual, the borrower, whose debts were now the bank's new assets. The fact that the same amount of money was now being used twice, which is to say, by two different people, effectively doubled the money supply. Money was no longer "held passively on the balance sheet of a financial institution. It is actively used, not only by depositors, but also by borrowers, enabling the latter to increase their expenditure."²⁷ The modern bank added a new dimension to specie by expanding credit and putting what was a passive sum of precious metal to work for someone other than the owner of the metal. This multi-dimensional system brought about a "deepening [of] the expenditure process within the economy."²⁸

The key to expanding the power of specie was paper bank notes, which were not money in the strict sense of the term but rather credit, which acted like money. Confronted with the extremes of money as pieces of precious metal, which constricted the economy, and a fiat currency, which inevitably led to the inflation and debasement of the currency, the 18th century innovators, learning from past innovators as diverse as the Dutch, the Italians and the Chinese, came up with "a specie reserve-based banking system where the expenditure widening and deepening process take place but in which the deepening process is limited by the amount of specie reserves held by the banking systems—the gold standard system."²⁹ John Law came up with a middle way, one which promised the best of both worlds.

It was John Law's genius and his folly to take the evolution of money to its logical conclusion by abolishing the necessity of specie altogether. The founders of both the Bank of England and Bank of Amsterdam felt that "Specie reserves were still of fundamental importance to the monetary creation process."³⁰ John Law, the gambler, decided to dispense with what he considered an unnecessary "intermediate process," i.e., specie backing bank's paper notes, and to go for broke, by claiming that "Gold and silver were not necessary for the functioning of the modern banking system. .

... Instead of having paper money or bank deposits counterbalanced by specie, they were to be counterbalanced by debt.²¹

Law understood intuitively that the rise of institutions like the Bank of England, which issued bank notes which were accepted as money, and the East India Company, which issued shares, which were also accepted as money, had revolutionized the world of finance. By merging the two, Law could solve both the financial and the monetary problems which constricted economic development in France because

the shares of the companies were perceived by Law as having many of the liquidity characteristics of money. They were traded amongst merchants who used them to purchase commodities and settle debts, secure in the knowledge that they could be sold for specie or bank notes in Exchange Alley. Because of the ease with which they could be negotiated Law . . . deemed them to be a new type of money.²²

A company funded by the purchase of shares could take the money raised and then purchase debt, at which point debt ceased being a liability and became an asset. This was especially true of large trading companies, like the English East India and South Sea companies, which had been granted monopoly trading privileges by the government. These companies could:

lend money to the government or to take over existing government debt, at advantageous rates of interest, in return for the acquisition of a particular monopoly trading privilege. Government debt, therefore, formed a significant part of the companies' balance sheet on the assets side. Share capital, on the liability side, had to be raised from the private sector in order to make such money available to the government. This share capital was provided by a private sector attracted by a guaranteed minimum return accruing from the interest on the public debt, along with the possibility of high dividends and capital gains on their shares as a result of the companies' exploitation of the privileges or monopoly rights.²³

The Bank of England had a monopoly issue privilege, and the East India and South Sea companies had monopoly trading privileges. More importantly, government debt featured as a significant asset on both balance sheets. This similarity in the balance sheets led Law to think in terms of merging their French counterparts—the Royal Bank and the Mississippi Company. This merger led to the realization of Law's grand design, which aimed at producing a system capable of solving both the monetary and the financial crises that France faced. The idea of a state bank and a state monopoly trading company merged in Law's mind into one super-financial entity which would solve all of France's economic woes.

There were a number of flaws in this argument. Most importantly, Law failed to understand the difference between money and credit, assuming that the notes which a bank issued in exchange for gold fell into the former category and not the latter, but he also failed to see that shares are not

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money because they are not a good store of value because “in a falling equity market shares can very quickly lose their liquidity attribute.”³⁴ Money which lacks liquidity is not money.

On April 10, 1717 the Council of State decreed that Banque Generale bank notes could be used as legal tender in payment of taxes. This meant that Law's bank had become *de facto* the state bank of France. Law had every reason to be pleased by official recognition of the success of his venture, but his new-found status as *de facto* state bank left him exposed because he was dangerously undercapitalized. Contending that the capital of the bank was “too small to provide a sufficient guarantee for the public,”³⁵ Law decided to found a monopoly trading company to raise the capital he needed.

Four months later, in August 1717 Law founded the *Compagnie d'Occident*, later known unofficially as the Mississippi Company. As with the Banque Generale, the Company of the West would have been still-born if Law and his powerful friends had not invested their own money in the venture. Law invested 13.3 million livres to buy 26,000 shares or 45 percent of the initial offering over the first ten days, and his friend the duc d'Orleans invested a similarly large chunk of the Dauphin's money in the same venture. This initial vote of confidence on the part of the Regent set the ball rolling, and other investors soon came on board.

By founding the Company of the West, Law assumed “control of trade between France and its Louisiana and Canadian colonies.”³⁶ That meant exclusive rights to the trade in beaver skins in Canada and precious metals in Louisiana. Taken together, the area covered by both colonies stretched from the mouth of the St. Lawrence River to the mouth of the Mississippi, 3,000 miles of virgin territory which held the potential for enormous wealth. Law was *de facto* ruler of this enormous domain for the next 25 years. He could appoint its governor, and make land grants to potential settlers. All he had to do was convince some of his fellow Frenchmen to settle there and others to invest their money in the colonies' economic development. Goaded on by the success of Spain in Mexico, the French investors were hopeful that gold and silver could be found as easily in Louisiana. There was, unfortunately, no Mexico City in Louisiana. There was nothing even remotely equivalent to the Aztec civilization that had mined the gold out of the ground in Mexico and fashioned it into easily transportable units.

Early reports, however, seemed to confirm the hopes of the French investors. The captain of the *Valette*, a French ship recently returned from Louisiana, claimed that there was “most solid foundation” for those who had invested in Mississippi stock in “the silver mines discovered in the country of the Illinois,”³⁷ the name of one of the local Indian tribes. Needless to say, there was no silver in Illinois, not until Marshall Fields started

selling silverware in Chicago at any rate.

The reality in Louisiana was different than the reports emanating from there. The few colonists who had been persuaded to settle in Louisiana were fighting to survive. New Orleans consisted of four houses, out of which the French traded what they had not for silver or gold but the necessities of life. There was certainly wealth in the huge amount of natural resources in this area, but the French mercantilists, with their obsession with money and gold, forgot that wealth can only be created by human labor, and human labor was in short supply, especially if one considered the sheer magnitude of the land that needed to be settled before a return could be realized.

The Irishman Richard Cantillon, an early supporter of Law, had sent his brother Bernard and a party of 1,500 settlers to Louisiana, where they struggled to survive, which precluded any engagement in farming or mining for precious metals. "The immigrants were racked with scurvy, dysentery, malaria and yellow fever. There was the ever-present danger of hostile Indians, who needed constant bribes to remain friendly."³⁸ In addition, the French were in a state of perpetual war with other European colonists over who was going to control the territories. In addition to the necessity of placating disgruntled Indians, they were constantly subject to attacks from the Spaniards to their west and the English to their east.

Louisiana may have seemed like a trading venture to the French, but the fact that there was nothing there to trade meant that it was, in effect, a land bank complicated by a labor problem. No one was foolish enough to claim that there was no wealth in this enormous stretch of obviously fertile virgin territory, but no one was astute enough to see that only human labor could extract that wealth.

Faced with an obvious labor shortage, Law promoted legislation "whereby every criminal, vagabond, and prostitute and any servant unemployed for more than four days was listed and liable for transportation."³⁹ The results of this recruitment were predictable. Buvat claimed that "the debauched girls that had been transported to the Mississippi and other French colonies had been the cause of much disorder by their libertine actions and by the venereal disease that they had spread."⁴⁰ Delegating the superhuman task of turning the swamps of Louisiana into revenue producing farms, factories and mines to "society's most defenseless, disreputable and dangerous citizens"⁴¹ was a recipe for disaster, and disaster is what followed.

In March 1719, 1,500 French colonists "were ambushed in their homes and slaughtered."⁴² Within four years of their arrival, the colonists had lost 75 percent of the settlers to a combination of war, disease, and desertion. By early 1720, Law was forced to recruit Scots to swell the ranks of the French colony. He then turned to the Irish, further outraging public opinion in France. By May the government called off its deportations. The whole failed

experiment was eventually immortalized in Abbe Prevost's novel *Manon Lescaut*, which appeared in 1731.⁴³ Clearly, no money would be forthcoming from this venture for some time.

In an uncanny way, Law had replicated the disastrous situation that had lured him to Scotland in 1704. The Darien Company had been founded along the same lines as the Mississippi Company, when a band of Scotsmen arrived on the isthmus of Panama looking for gold, and it had ended in pretty much the same way, as a disaster for all involved. Just as in Scotland, where Law had proposed a land bank as the solution for the financial hole which the Darien scheme had created in the Scottish economy, so in France Law created his own Darien scheme, the Mississippi Company, which was in fact a land bank masquerading as a trading company.

In 1719 none of this was known in France, where stock in the Mississippi Company rose and then rose again to insane heights creating what has come to be known as the Mississippi Bubble. Within three years, Law had raised the value of the Mississippi Company from around 34 million livres to over 5 billion livres by orchestrating the reverse of what happened in America during the 1980s. Instead of exchanging debt for equity, which is what happened during the leveraged buyouts of the 1980s, Law used "equity to take over debt, in this case the national debt."⁴⁴ It was to prove a fatal mistake, destroying both his bank and the Mississippi Company in the process.

On January 6, 1718, the Regent arranged a meeting over supper between Law, Aguesseau, and Noailles at the latter's residence, La Raquette. At that meeting, Law

recommended that the General Bank be converted into a state bank and that all transactions above 500 livres would be obligatorily made in bank notes. To address the problem of the financial crisis he proposed developing the Company of the West in such a way that the public would convert its state debt into equity of the company. "The capital of this company had to be composed of Royal debt, and distributed in shares which would interest a considerable body of merchants."⁴⁵

Mississippi stock took off for two reasons: ignorance of the actual situation in Louisiana, and Law's ability to extend credit. He was seen as having the ability to print the money which people used to purchase the stock. That ability became a reality on December 4, 1718, when the Banque Generale became the Banque Royale, and went from the being the state bank de facto to being the state bank de jure.

When the Bank Generale had functioned at least formally as a private concern, Law was careful to limit the expansion of paper to a 25 percent specie reserve. Intoxicated by the absence of risk which state backing now insured, Law threw caution to the winds and did nothing to limit the print-

ing of bank notes to the amount of specie the bank had in its vaults. Law could now reward himself and his investors by printing money that was sure to drive the already booming stock price even higher. Technically, the decision to increase the money supply lay with the Regent and his board of advisors, but since they had heavily invested in Law's company, there was no reason why they should want to limit their own profits. Law could have recommended a more sober monetary policy, but in doing so he risked alienating his backers, who were every bit as intoxicated by prospect of fabulous wealth as he was.

Law wanted to make sure that "there was sufficient liquidity in the market to facilitate the purchase of the new shares"⁴⁶ of the Mississippi Company, and so the bank notes started gushing from the government's printing presses. During the first six months of 1719, Law created 160 million livres of bank notes. By July 25, the money supply was "increased by 240 million livres, an overall increase of 150 percent of its note issue, giving a cumulative total for the year to date of 400 million livres."⁴⁷ Five months after the Banque Generale became the Banque Royale, the government was employing eight printers, whose job was to turn out 100-, 50-, and 10-livre notes round the clock.⁴⁸ Over the summer of 1719, *tout le monde* went mad over the prospect of instant riches.

Endnotes

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Chapter Forty-Eight

The Mississippi Bubble

Over the summer of 1719, France savored her first speculative bubble as stock prices took off, fueled by a dramatic increase in the money supply. Outside the Mississippi Company office on the twisting and narrow Rue du Quincampoix, Paris was rapidly engulfed in unprecedented speculation madness. At the beginning of the summer, Mississippi stock was selling at par, which is to say, 500 livres a share. By mid-June the price rose to 650 livres, at which point another 50 million paper livres poured off of the Banque Royale's printing presses to enable the purchase of the next issue of stock at the end of July.

Sensing that the bank's monetary policy enabled a quick killing, droves of speculators converged on the Rue de Quincampoix to cash in on the bubble. When the bank's offices opened, "Aristocrats jostled with their footmen and maids" for the chance to buy Mississippi stock and become "millionaires" (the term was coined at this time) overnight.¹ Among the mob was Law's coachman, who promptly quit his job when he became a millionaire.² A hunchback made 150,000 livres by renting out his hump as a writing desk. Foreigners "flocked to Paris. . . to play the markets,"³ and when they came they brought with them their gold and silver currency, improving France's balance of payments. The mania soon spread across the channel, to the point that some were saying that Law was engaged in a plot to drain England of its silver reserves. "Money," wrote Defoe, who traveled to Paris to report on the mania, "flows like the waters of the Seine."⁴

Since France had been in a state of chronic deflation for centuries, the bubble had an effect on the economy that was both beneficial and immediate: "Plenty immediately displayed herself through all the towns, and all the country. She there relieved our citizens and laborers from the oppression of debts. . . . she revived industry."⁵ The duc d'Antin "was struck by the way the increased monetary circulation was pushing up prices and encouraging agricultural workers to cultivate land that had been hitherto uncultivated."⁶ Du Tot felt that "the system had been of great benefit to France in restoring honor and liberty to debtors, drawing wealth from foreign countries, enriching the towns and the country, taking people out of their oppressive state, and in destroying usury."⁷ The paper boom sparked a building program, and Law used the money he gained from the bubble to invest in property and art.

At the end of August 1719, events moved with breathtaking speed. Capitalizing on the speed with which the bubble was growing, Law, the gambler made the most daring bet of his career. He offered to lend the French crown 1.2 billion livres at 3 percent, a sum that would retire the French sovereign debt. Seeing Law's success, the British tried to outdo Law in daring by "permitting the South Sea Company to attempt to take over the bulk of the British national debt,"⁸ and creating the South Sea bubble as a way of drawing its silver back from its flight into Law's Mississippi scheme.

Law had finally achieved what he promised. He had accomplished the impossible. He had revived the economy by expanding the money supply and then used the boom to solve what everyone felt were the insurmountable financial difficulties which were the legacy of Louis XIV's sovereign debt.

Law then put up an additional 52 million livres if the government would allow him the right to collect taxes. When Law's tax reforms were enacted, the rejoicing reach fever pitch: "The people went dancing and jumping about the streets," wrote Defoe. "They now pay not farthing tax for wood, coal, hay, oats, oil, wine, beer, bread, cards, soap, cattle, fish."⁹

In reality Law's concern about the debt had removed whatever second thoughts he may have had about increasing the money supply. Law claimed that his main purpose in driving up the stock price of the Company of the West was retiring France's sovereign debt, when he wrote that "I was therefore obliged to put order into the King's affairs without which I was not in a position to sustain the credit of the bank and the company."¹⁰ In doing this he succumbed to the age-old danger of allowing government's fiscal issues, as opposed to the needs of the economy, to determine the money supply. This is precisely what had led sovereigns to debase their coinage in the past. In linking the sovereign debt to paper money, Law only made debasement easier. When it came to retiring the debt, Law succeeded beyond his wildest dreams but he wrecked the economy in the process.

By October 1719, the share price had risen to 6,500 livres,¹¹ boosted on its upward path by the ease with which money could be borrowed from the bank. Loans at 2 percent interest were readily available and shares could be used as collateral:

With such a loan, transactors were able to purchase the rights to several other shares because of the small down payments and easy installment repayment terms. As long as the bank was prepared to lend in such a way there would be a queue of borrowers prepared to buy shares that seemed to rise on a day-by-day basis.¹²

By December of 1719, the cycle of increases in the money supply, followed by a rise in share prices, had repeated itself a number of times and had driven the price of one share of stock to 10,000 livres. Then suddenly,

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on December 11, the share price fell from 9,750 to 9,305. By December 13, the price had dropped to 8,500, and on the next day it dropped still further to 7,950.¹³ Shares rallied to 9,410 by 30 December, but by then it should have been clear that as soon as the bank stopped lending money, the price of the shares was going to fall.

Law now found himself in a bind. He was right in initially seeing the money supply as well below what the French economy needed, but he had expanded the money supply so recklessly to sell stock so that he could pay off the sovereign debt that any further expansion threatened to set off runaway inflation, wreck the currency and drag down the economy and all of his hard-won achievements along with it. After estimating the size of the French economy, Law had set a target goal of issuing 3 billion livres. If that estimate were accurate, then by December 1719, Law had already exceeded his own target by 2.2 billion livres. After lagging below what the economy needed, the money supply now stood at roughly double what it could bear.

Aware of the excess liquidity in the system, Law tried to cool the economy by removing specie from circulation. At first he tried the carrot, when on December 1, he decreed that bank notes could be used as legal tender. If debts could be paid off with paper, he reasoned, no one in his right mind would pay them off with gold or silver. This would drive gold and silver out of circulation and thereby contract the money supply to his original and more reasonable 3 billion livre figure. When the carrot failed, Law turned to the stick. On December 21, he issued an *arrêté* banning silver coin for transactions above 10 livres and gold coin for transactions above 300 livres.

From the moment he started making proposals to the French Crown, Law had one plan in mind. He needed to expand the money supply so that he could sell stock in the Mississippi Company so that he could use that stock to pay off the sovereign debt which was crippling the economy. If he had contented himself with creating a bank and expanding credit, Law might have succeeded. When the Banque Generale was a private operation under his control, Law limited the issue of notes to some rational relationship to the amount of specie deposited in the bank.

When the Banque Generale became the Banque Royale, Law the gambler decided to go for broke by issuing enough paper money to allow the conversion of government debt into shares of the Mississippi Company. In spite of its initial spectacular success, there was a fatal flaw in this conceptualization:

In volatile trading markets, shares tend to lose their aspect of moneyness. When share prices start to roller-coaster transactors may be reluctant to accept them in payment for goods and services because of the increasing uncertainty to their value. Law . . . monetized the shares of the Mississippi Company in early 1720 at 9,000 livres per share. This action massively overexpanded the money supply

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out of line with the real economy creating the seeds for the destruction of the Mississippi System.¹⁴

Ultimately, Law sacrificed monetary policy to debt-management policy, as he admitted when he wrote: "It was therefore necessary for me to restore order to the King's affairs, without which I could not have hoped to maintain the credit of the Bank and the Company."¹⁵ Law felt that monetary policy could not operate effectively unless the superstructure of accumulated debt was dismantled. In this he was no different than the money managers who came before and after him. As Ederer put it in 1964: "The fiscal needs of governments still remain a strong criterion for monetary issue as they were prior to the 17th century."¹⁶ In spite of the excesses which led to the creation and then the spectacular collapse of Mississippi Company stock over the course of 1720, Ederer feels that Law got it basically right because he was "one of the first men to clearly enunciate the bold principle that monetary issue should conform to the demands of trade. This principle today underlies modern commercial banking theory and is the implicit norm of issue."¹⁷

The real problem, according to Ederer, was not paper money; it was over-issue. Given the chronic deflationary state of a precious metal-backed economy like France, any innovator was prone to err in the opposite direction: "What is frequently overlooked is the possibility that periods of over-issue may often, if not always, have been preceded by periods of monetary stringency, especially in view of the natural tendency to deflation referred to earlier."¹⁸

Murphy gets it right when he writes that "Without the limiting constraints of gold and silver reserve backing, the potential of the system to expand its array of monetary liabilities is only limited by the prudential behavior of the liability creating institutions."¹⁹ The economy, in other words, had to be managed, and no "self-regulating" mechanism like the gold standard could act as a substitute for human prudence based on an understanding of the moral law, which was another word for practical reason. Unfortunately, prudence was in short supply in Paris during the fall of 1719. Law had become insufferable, especially to the English, who now perceived him as a security threat. On September 9, the Earl of Stair reported a conversation with Law in which the latter bragged that:

he will set France higher than ever she was before, and put her in a condition to give the law to Europe; that he can ruin the trade and credit of England and Holland, whenever he pleases; that he can break our bank, whenever he has a mind, and our East India Company.²⁰

Intoxicated by his own success, Law, ever the gambler, tried to bluff his way out of an impossible situation. It was at this moment in time that Law made his fateful wager with Thomas Pitt, Lord Londonderry. Law was so

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convinced that the rise in Mississippi shares would drive down the price of East India stock that, in Stair's words, he "entered into articles with him to sell him at 12 months hence, a hundred thousand pounds of stock at 11 percent under the present current price."²¹

Law was wrong. Much to his chagrin, in 1720 the money flowed out of the Mississippi Bubble in France and created the South Sea Bubble in England. The price of South Sea shares soared from 128 in January 1720 to 1050 in June. At the same time the price of Mississippi shares began to falter.

In order to hold public office in France, Law had to convert to Catholicism. His conversion was made public at a ceremony in Melun in December 1719.²² On Christmas day, "Law participated in his first Mass at his local church of St. Roche and marked the occasion with a sumptuous ball and dinner" and "donated vast sums to good causes."²³ Then, Law was appointed controller general of finance on January 5, 1720:

Law now controlled all of France's finance and money creation. He also controlled the company that handled all of France's foreign trade and colonial development. Furthermore, by holding much of the French government's debt, he had created a stable source of income for future business ventures. Law had created Europe's most successful conglomerate.²⁴

And as if to confirm his success, "The price of Mississippi shares reached an all-time high of 10,100 livres the day after he assumed the office of Controller-General."

Shortly after Law had reached the pinnacle of power, disquieting accounts of the real situation in Louisiana began circulating in Paris. "I have spoken to a Frenchman who is lately come from the Mississippi. . . . The account he gives of the French settlement in that country would not encourage me to put my money into that stock," Pulteney reported to Whitehall.²⁵ Stock prices began to fall, causing Saint Simon to wax philosophical about the connection between credit and labor: "As the company possessed neither mines nor philosopher's stone, it was obvious that its shares, in the long run, must decline in value."²⁶

Convinced that what goes up must come down, Law's investors began to cash in their stocks and withdraw their money from his bank. Stock prices began falling in January 1720 as some investors sold shares to turn capital gains into gold coin. Before long, silver and gold were draining from the bank's coffers, and Law was faced with a run on the bank. The Prince de Conti "took some 4.5 million livres in notes to the bank and demanded coins. As in the bank's earliest days, Law had no alternative but to comply. Conti needed three wagons to carry away the coins."²⁷

By December the trickle of withdrawals had become a torrent that seriously threatened the bank's reserves. In January Law stopped the sale of Mississippi stock after buying up stock at 9,000 livres a share. Once the

official support for the stock disappeared, the stock prices began to decline. And once the stock prices began to decline, the clamor for gold and silver increased, along with the rage of the people who watched their savings disappear as the bubble deflated. The Earl of Stair claimed that "The rage of the people is so violent and so universal against Law that I think it above 20 to 1 that, in the course of one month, he will be pulled to pieces or that his master will deliver him up to the rage of the people."²⁸

On January 28, Law banned the export of coins and bullion. By the Spring of 1720 Law realized that his system was spinning out of control and that he could not guarantee the value of bank notes and shares. Law's resolve was further tested when his first attempts to cool down the economy backfired.

Confidence was draining inexorably out of the system, and the more confidence fell, the more the holders of paper demanded silver and gold. By February, cattle dealers in Poissy refused to accept paper for the animals they had brought to market. In times of crisis, when confidence disappears, economic exchange returns to a more primitive level because the more primitive the exchange the less trust is needed. In Poissy, livestock could only be purchased for gold or silver, something which pointed out the fatal flaw in Law's system. Money must be a store of value. Money cannot lose its connection with labor, which is the source of all value. If it loses that connection, the seller loses confidence and reverts to whatever medium he perceived as having intrinsic value, which in this instance meant gold and silver.

Law reacted to the drain on gold and silver by issuing an edict on February 27 which stipulated that "all payments of more than 100 livres were to be made in banknotes," and that furthermore, "All surplus gold was to be brought to the bank and exchanged for paper."²⁹ Law's edict only deepened the already serious crisis of confidence that was rampant among nervous holders of increasingly worthless paper. The result was predictable: "crowds . . . rushed to the bank to cash in their shares, and the printing presses went into overdrive to pay for them."³⁰ Faced with what was quickly becoming a run on the bank, Law upped the ante by issuing a total ban on gold and silver coins as legal tender.

Outraged by his meddling in the economy, the paper holding public became so furious that Law lost his nerve and reversed himself. On March 5, Law issued an *arrêté* guaranteeing the price of Mississippi shares at 9000 livres. By doing this, Law turned Mississippi shares into a type of money, further inflating the money supply. Since these shares were also convertible into silver, Law set himself up for another run on the bank, as soon as the public lost confidence in his paper. Beyond that, Law now had to keep the printing presses running to maintain the share price, a move which

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all but guaranteed runaway inflation, which would create another crisis of confidence, which would cause a further drain on his already dwindling specie reserves. The guaranteed share price meant that no control could be exercised over the banknote issue, which Law had earlier tried to limit to 1.2 billion livres.³¹

On his return to Paris in the spring of 1720 Richard Cantillon became more convinced than ever that Law's System could not hold and that there were considerable gains to be made by speculating against the French currency. Cantillon's decision to speculate on the French currency, enraged Law, who then ordered Cantillon expelled from France. After cashing in his chips, Cantillon "left Paris with his winnings and went on a tour of Italy to enjoy the sights and invest in art."³² Cantillon may have been one of the first to turn his back on Law, but he was not alone.

Paris was descending into chaos, but the printing presses continued to churn out increasingly worthless bank notes in a desperate attempt to keep Law's failing system afloat. By May of 1720, the money supply had doubled from January. Law had succeeded in bringing the money supply up to what the specie-starved French economy needed to enable trade, but in order to keep the system running he had to keep fueling it with increasingly worthless paper. By mid-May Law knew that he had to "cool down the overheated financial system,"³³ which threatened to undo all of the benefits which his bank had conferred on the real economy. Law announced a devaluation of the livre. Beginning on May 21, the value of bank notes would decrease gradually until they reached a point half of their current value.

This move enraged an already angry public, which marched on the bank and, finding it closed, threw stones through its windows. Three days of rioting ensued, forcing the Regent to call in 6,000 troops to quell the disturbances. Specie was made available to ensure that the bakers provided Paris with bread. When the Regent saw that the mob refused to be intimidated or placated, he was forced to act. Fearing another Fronde, the Regent finally accepted Law's resignation on May 29. The month of June found Law under house arrest. Law would later explain to Montesquieu that he lived in fear for his life for several days. With Law out of the picture, the financiers attempted to restore the old financial system. As a first step, anyone with shares was ordered to turn them into annuities. The chaos, however, was now so great that the old system could not simply be restored. Now it was the Regent's turn to vacillate. Fearing, in Pulteney's words "if Mr. Law is dropped his System must drop too," the Regent reversed himself and reappointed Law as finance minister. The Regent felt that he had no choice because "Law was the only person in France who really understood the System. No one else could fully grasp the nature of the experiment he was conducting on the French economy."³⁴

By creating money and, therefore, prosperity out of thin air, Law had fatally undermined the credibility of the old system, preparing the way for the French Revolution some 60 years later. Law's ability to undermine the old system did not translate into an ability to lend credibility to the new one, which continued to crumble in spite of his efforts to save it. The public had lost confidence in Law's system, and nothing he did could restore it. And so after an initially favorable response to Law's return to power, foreign investors began shifting funds from the collapsing market in Paris to the booming market in London. Over the summer of 1720 British investors pulled their money out of the Mississippi Company and shipped it to London, where they invested it in the newly created South Sea Bubble, guaranteeing, among other things, that Law would lose his bet with Lord Londonderry.

The English genius Sir Isaac Newton lost 20,000 pounds when the South Sea bubble burst, but his conservative contemporaries were not taken in by something that smacked of moral corruption. Pope's view of the bubble was reminiscent of the cartoons drawn at the time showing Law with a funnel in his mouth swallowing gold while out of his exposed arse paper emerged:

The Tempter saw his time; the work he ply'd
Stocks and Subscriptions pour on ev'ry side
'Till all the Daemon makes his full descent
In one abundant shower of Cent. Per Cent.
Sinks deep within him and possess whole,
Then dubs director, and secures his soul.
Behold Sir Balaam, now a man of spirit,
Ascribes his gettings to his parts and merit.³⁶

Less than a year after Law had made his fateful bet with Pitt, his policies had brought about the opposite of what he had hoped. By June 1, shares in the South Sea Company had risen to 450. According to Destouches:

Such a sudden and extraordinary increase arises not only from the rush of everyone to withdraw from France so as to invest in the stocks of this country for this maneuver is not just limited to foreigners but also to French people who are flooding in here with as much as they can carry, and subscribing for or buying shares. I see two things at the same time—the total collapse of our credit and the rise of the British credit.³⁷

The second problem was that in apparently solving the financial crisis Law had exacerbated the monetary crisis. France, which had suffered from a dearth of money when Law founded the General Bank in May 1716, was now awash with liquidity. The monetary system had moved considerably out of line with the real economy. Du Tot called Law's system "a beautiful edifice," which "caused people to scorn gold and silver."³⁸ Law was a victim

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of his own system because the course of events which Law set in motion, forced him "to raise this edifice, contrary to the wishes of the architect, to seven storeys. As the foundations were not designed to carry this extra burden, they collapsed and the edifice fell from top to bottom."³⁹ Law was also fighting a cabal of "usurers and money holders," who "preferred to see the state in the deplorable situation that characterized the start of the Regency."⁴⁰

Law continued to vacillate in his efforts to tame the runaway French economy. After deporting Richard Cantillon for speculating on the currency, Law invited him back to help manage the system, only to have Cantillon refuse to become captain of a sinking ship.⁴¹ The mob, whose passions had been aroused by avarice, discharged that passion in acts of violence now that their desire for the effortless accumulation of riches had been violated.

A crime wave swept over Paris. Law's life was in danger. Law's common law wife and their children were no longer safe in public, which became apparent after their carriage was attacked by a mob returning from the Bezons' fair.⁴² For his own protection, Law was forced to move into the Regent's residence, the Palais Royale. When the mob discovered his new home, they marched there carrying the bodies of those who had recently perished in the rioting. When the governor of Paris arrived at the Palais Royale, he was forced to throw handfuls of silver and gold from his carriage to prevent the mob from venting their rage on him and lynching Law.⁴³

On September 15, 1720 Law announced that all high denomination notes were now to be withdrawn from circulation and that the remaining notes could only be accepted as payment if the rest of the transaction was made in coin. The timing of this announcement coincided with the bursting of the South Sea bubble in England. As investors who had borrowed heavily to buy South Sea stock now scrambled to find coin to make their margin calls, Law was putting an even greater strain the economy by forcing the French to make half of all payments in the once-so-maligned coin. Clearly something had to give. As Marais put it, the French now "have to pay for half of everything in coins and there aren't any, and moreover everything is going up in price instead of coming down."⁴⁴

The end finally came in October 1720 when fears of the plague caused a run on the bank. Reports of the plague, which carried off one-third of the population of Marseilles, where it began, had begun circulating in Paris at the end of July. By October, the plague had spread to Toulon, where it again carried off one-third of the population.⁴⁵ Law later wrote:

that the plague played a key role in destroying the system in that it caused the public to switch its demand away from paper money to specie because the latter was regarded as a better means of payment for the purchase of goods and necessities in a plague-stricken environment. He posed the question of what might

have happened in Britain if one of its regions had been affected by plague. . . .⁴⁶

Law was learning the hard way that paper money was a form of credit which was based on confidence, and that when confidence disappeared, the money disappeared as well. Instead of reassuring the French that their money was sound, Law exacerbated the situation by publicly burning 400,000 shares of Mississippi stock outside the Hotel de Ville,⁴⁷ causing Gleeson to remark that

confidence once lost is hard to regain, and burning vast quantities of money and shares was not the way to restore it. Every smoldering bonfire sapped the credibility of paper, and the press for coins grew more insistent.⁴⁸

On October 10, the government announced that, as of November 1, bank notes would no longer be recognized as legal tender.⁴⁹ From that date onward Frenchmen would have to use metal coins to settle their accounts. "Holders of banknotes were obliged to convert them into annuities."⁵⁰ France's economic system had reverted to where it was before Law's arrival on the scene. Paper, Voltaire joked, "was now back to its intrinsic value."⁵¹

When the Banque Royale finally closed its doors on November 27, 1720, anyone who had not cashed in his shares and banknotes had been ruined financially. The Crown emerged from the Mississippi bubble virtually debt-free. Law's system had bankrupted the state's creditors, but the state as a debtor ended up "a net gainer" as a result of the collapse.⁵² "Rising inflation, falling share prices, and the reduction in the value of paper had bankrupted state creditors but reduced Crown debt by two-thirds."⁵³

Law protested his innocence to the Regent, admitting that he had "committed many faults," but dishonesty was not one of them.⁵⁴ The Regent was, as always, sympathetic to Law's plight, but the situation was now beyond his control. Law's life was in danger and so the only option was flight.

On December 17, Law, equipped with passports, gold and armed guards provided by the duc d'Orleans set off in his carriage for Brussels. When he reached the border crossing at Valenciennes he was apprehended by Rene Louis de Voyer de Paulmy, son of his old enemy the Marquis d'Argenson, the former Keeper of the Seals. De Voyer de Paulmy had the pleasure of settling old grievances by hoisting Law on his own petard, when he confiscated Law's gold because "exporting gold was illegal—according to a regulation introduced by Law."⁵⁵

Law was allowed to complete his escape to Brussels, where "he was received like the Messiah."⁵⁶ Virtually every monarch in Europe was avid to hire him as their resident alchemist cum finance minister. The King of Denmark offered him a job. On his way from Copenhagen to Venice, Law met with the Elector of Cologne, "who refused to let him pass until he redeemed 400,000 livres in banknotes which the Elector produced."⁵⁷ Peter

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the Great, in keeping with his enthusiasm for things French, invited him to come to Russia, but Law could never get over the hope the he would one day be called back to France to finish what he had started, and so he began his wanderings once again but in orbits that always had Paris as their center.

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Chapter Forty-Nine

Death in Venice

In late August 1721, Law left Venice for England. This time his notoriety was enhanced by the attacks of Lord Thomas Coningsby, a colorful if slightly ridiculous member of the House of Lords, who demanded that Law be hanged for his conversion to Catholicism and service to the French, a combination to which Coningsby attributed Britain's current misfortune. Coningsby's attacks only earned him more respect from the political and financial establishment in London.

In early December 1721 Law received a pardon and returned to the good graces of the English establishment after taking part in a ceremony in the City of London which "ended with Law distributing the customary strong spices to the judges," a gesture which suggested that "Law was still considered an important political personality. A few days later he was feted at the opera with courtiers bidding for his attention. Once again he was obstinately promoting his System. There was talk that he would be recalled to France."¹

If Law was too dangerous to be appointed Chancellor of the Exchequer in England, the prospect of having him become finance minister for any of England's enemies was fraught with still more danger. The French felt the same way about Law working for the English. And so a delicate dance ensued, whereby each sovereign tried to neutralize Law as a kind of consultant to prevent his enemies from hiring him in the same capacity. His old friend, the duc de Bourbon told him "Once you are outside the country I beg you not to go too far away because the state will surely have need of you and you are too attached to it to refuse to give your advice to prevent it from perishing."²

The British had even more reason to be fearful. Because of Law's Scottish heritage, the English intelligence community feared that Law, because of his penchant for Italy, would end in Rome where he would get pulled into the gravitational field of the Stuart court, which still exerted a strong attraction to a Scot, especially one who had just converted to Catholicism.

On January 19, Law arrived in Venice with his son William. The Carnival of Venice was in full swing, and Law, who took up residence close to the Ridotto, Venice's gambling district, lost no time getting back to the games of chance, which he probably saw as the quickest way back to solvency after his hurried departure from France. When Law let it slip that he planned to travel to Rome, Colonel Elizeus Burges, the English consul to

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the Venetian Republic, took Law aside and told him

that he had always been suspected of Jacobite tendencies and that by taking up permanent residence in Rome he would confirm such suspicions and forsake any chance he had of returning to Britain.³

Law took Burges's advice and returned to Venice, where he remained suspended between the two powerful poles of England and France, still hoping to return to London. In February 1722, Destouches claimed that "the courtiers are abandoning him . . . and this accordingly will cause him to fall into obscurity."⁴ Law never lost faith in his system. In May 1722, he was telling the Serbian President of Finances that everyone in France:

agreed that I had saved the country. . . . There was no unutilized land or unemployed workers. Manufactures, navigation and trade increased. The peasants were fed and clothed and owed nothing to the King or to their master. Credit together with specie had made money so abundant that one could ordinarily borrow at the notaries at $\frac{1}{2}$ percent and only repay the principal at will.⁵

By 1722, "the richest man in Europe" was lecturing the crowned heads of Europe on how to expand credit while simultaneously running from his creditors. By the beginning of 1724, any hope that Law may have harbored about returning to France evaporated when the Regent, after falling ill on December 2, 1723, died in the arms of his mistress at the age of 49. With the duke's death, any chance of Law returning to his former position died as well. Marais claimed that "Law would have been invited back to France and that a new type of paper money, known as the 'billets de confiance' would have been created" had the Regent lived. Law said the same thing, but the gambler's luck had run out.

On August 9, 1725, John Law crossed the channel to the continent once again, this time as an English undercover agent. Law was paid next to nothing for his services and forced to rely, once again, on gambling to support himself. In terms of intelligence, the English got what they deserved to get for the paltry sums they paid Law and so when he tendered his resignation, the English government "accepted [it] without any apparent dismay."⁶ This freed Law to return to Venice, where he launched yet another career as an art collector and dealer. "Within two years he had assembled a collection of nearly five hundred works, including paintings by Titian, Raphael, Tintoretto, Veronese, Holbein, Michelangelo, Poussin, and Leonardo."⁸

By the time he settled in Venice, he knew the call from France would never come. The only thing even remotely approaching that call was a surprise visit on August 29, 1728 from the French philosophe Montesquieu, who concluded that the man who was once the richest man in Europe was "more in love with his ideas than with his money."⁹

Law died of pneumonia seven months later on March 21, 1729, just short of his 58th birthday, weakened by "the dampness of the winter months

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in Venice," but probably not in despair, as Gleeson claims. He received the last rites at the hands of the Jesuits who attended to his spiritual needs, and his requiem Mass was sung by the papal nuncio. In his last will and testament, he bequeathed his collection of paintings to Katherine, who lived in a convent until her death in 1747 from the proceeds of the 15 pictures she inherited from her husband.

At the height of his powers, Law had seemingly become a counter-alchemist, a demigod with a magical touch for transforming gold and silver into paper banknotes and shares. For a short period, it seemed as if Law had produced a specie-less France. Law was an innovator equal to Gyges the Lydian king who invented the coin. Law was in many ways a negative Gyges because he showed that "the economy could function without gold and silver."¹⁰ Murphy claims that Law was ahead of his time. He calls Law a "flawed genius" and claims that he failed not because there was something wrong with his economic theory but "due to the circumstances of his time."¹¹ Adam Smith, who was born six years before Law died, called his system "the most extravagant project both of banking and stock-jobbing that perhaps the world ever saw."¹²

Gleeson claims that Law's solution to France's financial woes was "beguilingly simple,"¹³ but Gleeson neglects to tell us that Law was himself beguiled by a confusion between credit and money. Law understood that credit was more important than trade in unfreezing a deflated economy: "If Spain had ceded the Indies to the English, the benefits accruing from trade would not have been as great as those arising from its credit."¹⁴ What he didn't understand is the relationship between credit, money, and labor. Law's actions as head of the Banque Royale, which entailed lending money at 2 percent to buy new Mississippi stock, using old Mississippi stock as collateral, involved not so much the creation of money as the extension of credit.

In its initial phases, the extension of credit is indistinguishable from an expansion of the money supply. Paper currency issued by a bank is in effect credit acting as money. It works for a time, but since credit is simply another word for debt, and since debt is invariably tied to compound interest, the continued issuance of paper money is tantamount to rolling over old debts with new debts. The problem is not just the inescapable usury burden that goes with expanding a debt-based money supply. The problem is that the loan ultimately has to be paid back with something other than an expanded version of that money in the form of stocks. Sooner or later, the credit, or the money loaned, has to be put to productive use through human labor, which is what creates the surplus value that can pay back the loan. Otherwise, default is inevitable.

This problem was compounded by the fact that credit in order to exist

as money must earn a return equal to principal plus interest. Credit was invested in Mississippi stock, which was incapable of earning any return until sufficient labor was made available. Once the real situation in Louisiana became clear, the stock price collapsed. Once the stock price collapsed, the loans which the credit enabled could not be paid back, and once it became clear that the loans could not be paid back, the investors lost confidence and began to suspect that their money was worthless. Once money which was issued as credit lost its value, the depositors demanded their gold back, causing a run on the bank, and the collapse of the system.

In his *History of Economics*, Othmar Spann claims that:

The fallacy in Law's credit theory of money lies in the Scottish financier's supposition that credit can engender a second, independent capital, and thus create a new and supplementary value; his belief that money can be replaced by symbols of credit. That is not so, although there have been institutions that have seemed to lend color to such a belief. The famous issue of assignats during the French Revolution was in part based on a similar view.¹⁵

Credit can put pre-existent capital to use, but the only thing that can ensure a return on that old capital is human labor, which creates new value and therefore new capital. Human labor is precisely what was missing in the operations of the Mississippi Company, and once that became apparent the scheme collapsed. No matter what Law and his supporters claimed, credit is not money. "Credit," according to Spann "is only the permission to use the capital of another person."¹⁶ Credit is not money because it is not a store of value, and it is not a store of value because it has no intrinsic worth. The value of a stock is ultimately a function of human labor; once it becomes clear that human labor cannot achieve the promised creation of wealth, the stock becomes worthless. Money, on the other hand, retains its value because if it were not a store of value it would not be money. Stock, therefore, cannot serve as money because money is already in a sense "fruit," whereas credit must bear fruit before it can become new capital.

Credit, history has shown, is dangerous in and of itself because of the risk involved. Since credit "is liable to be misused and is often misused," the use of credit "should be controlled and modified in a way that will promote the general advantage. State intervention in the discount policy of the note-issuing banks and public, cooperative and corporative banking (banks for specific purposes) offer the most fruitful possibilities of this kind today."¹⁷

The most dangerous form of credit abuse is the use of credit for speculation, which is precisely how Law used it in creating the Mississippi bubble. What subsequent capitalists learned from Law was how to create bubbles as a way of eliminating debt, something governments profit from, and as a way of controlling assets. When easy credit is suddenly cut off, the creditor gets to buy up the hard assets that served as collateral for pennies on the

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dollar.

Pesch claims that Law made the mistake of trying to transpose the rules of fractional reserve banking onto the national economy. If the bank lends a certain percentage of its money with enough caution to ensure that the loan is repaid, then the money plus a profit will return. Law, however, became intoxicated by the knowledge that his bank had the power of issue once it became the Banque Royale. This caused him to throw caution to the winds, but it did not change the fundamental rules of fractional reserve banking, which decree that:

If the bank abandons such caution and issues bank notes far beyond its cash reserve, led on by the urge for profit, or if it loans out on long term the deposits on hand, or invests them in risky or unsafe business deals, then there is the danger that at some given moment it will not be able to redeem its notes, to the great detriment of the public which placed its trust in the bank.¹⁸

This is what Law did, and according to Pesch why Law's bank failed:

By disregarding such precautions, the Note Bank (since 1718, State Bank) established by John Law, the Scot, in France went broke. Law thought that just as a private banker uses ten times as much credit as his basic capital amounts to, the state too, inasmuch as it can assemble the money of a country into a bank fund, could issue ten times the amount of credit notes as the original amount. Then a tremendous amount of bank notes was put into circulation as legal tender. The public accorded the bank money more trust at first, the more the state coinage system was undervalued with the coining of state metal money, etc. Law also understood the theory that notes are only worth something so long as an equivalent amount of cash money was behind them. Practically, he disregarded that. Thus, his bank had to go down for the same mistake which will do in any paper-issuing bank. Furthermore, he deceived himself in that he felt that the great amount of paper money would incite production. He forgot that circulating media which exceeded the need of commerce for it would simply increase prices and reduce exports, and that capital would be driven into hiding by an artificially established interest rate, etc.¹⁹

According to Pesch, the Mississippi company collapsed because it "had no support,"²⁰ i.e., there was no (or insufficient) human labor to ensure that credit could create new wealth and, therefore, new capital out of the old capital that was the basis for the company's shares:

The belief was propagated that this society would assure fabulous profits by the exploitation of far away lands. Masses of people streamed to Paris to speculate. The stocks rose dramatically. However, the expectations placed on colonies turned out to be illusions. In the wake of the general orgy there was generalized ruin. What applies to the exchange value of goods also applies to the exchange value on the markets. They too are dependent on real use values—actual value in use. Where the proper balance is lacking, everything is built on sand.²¹

Murphy claims that "Without the limiting constraints of gold and sil-

ver reserve backing, the potential of the system to expand its array of monetary liabilities is only limited by the prudential behavior of the liability creating institutions.”²²

Having freed the money supply from any material limitation, we must now learn to adjust that supply to the demand for money, i.e, the need for money. That means establishing “rational norms for expanding the money supply.” Money should increase “in some definite proportion to the normal secular increase in production.”²³ Once the economy disconnects from gold and silver, prudence, i.e., morality, becomes the most important criterion in determining the money supply. Ederer says much the same thing when, quoting Walter Bagehot, he claims that: “Money will not manage itself.” Money “requires management,” or “rational norms for issue.” In order “to develop such norms there must be an adequate understanding of money and of its predominantly functional nature as well as of its value determinants.”²⁴ Ederer wants to return the power of issue to the state because:

the power to issue money is of such tremendous consequence in an economy that it can only be exercised by one central authority for the common good. This places the responsibility squarely with the sovereign state.²⁵

Ederer’s views on money were influenced by the optimism of the early 1960s. That optimism leads him to believe in progress, and the idea that “genuine progress” means the rejection of the idea of a “return to material guarantee.”²⁶ Law was ultimately right because “A money supply which is fastened to metallic deposits does not adjust itself to expanding productivity and to the growing needs of dynamic modern economies.”²⁷

But even if Law was ultimately right, he was wrong in the short run because he failed to see that, ultimately, the money supply is limited by two factors: prudence on the part of the entity bearing the power of issue and trust on the part of the population at large. What we have experienced in the decades since Ederer made his optimistic claims about the money supply is the total collapse of virtue (prudence is a cardinal virtue) among those who control the money supply and a consequent collapse of trust, as evidenced in the rise in the price of gold. This means that a return to a more primitive form of exchange, i.e., to gold-backed redeemability, is all but inevitable given the trajectory of the last 50 years. Each successive stage in the evolution of money must be accompanied by an increase in trust. Without that trust, progress is impossible and a reversion to a more primitive form of exchange is inevitable.

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Chapter Fifty

The Aftermath of the Glorious Revolution

“Wad ye bring Popery in on us, and arbitrary power, and a foist and a warming-pan and the set of forms, and the curates, and the auld enormities o’ surplices and cearments. . . . ?”

“Hout man, whisht wi’ your whiggery,” answered the Celt.

Walter Scott, *Rob Roy*

The Revolution of 1688 was far from “Glorious.” It was a long, drawn-out contentious affair which would plague Great Britain with armed insurrection for the next 57 years. If we take capitalism as the deformed and misbegotten offspring of that revolution, the effects continue to this day. No matter how we view it, the revolution of 1688 was “neither quick nor easy.”²

The reaction to the usurpation came almost immediately. In Scotland the Viscount Dundee defeated Whig forces at the head of a Jacobite army at Killiecrankie in July 1689. The victory, however, came to nothing when Dundee died in battle.³ The deposed James left his court of exile in France and went to Ireland to lead fighting there that would last for more than a year. After two years of fighting in Ireland, the Jacobites conceded defeat at the treaty of Limerick, which was significant in the light of future risings in that the victors “chose not to treat the Jacobite soldiers as criminals but rather as members of a legitimate military force. Instead of facing prosecution for treason, the men were allowed to depart with their leader for France.”⁴

James died in France in 1701, but armed support for his cause would continue into the next century with risings in 1708, 1715, 1719, and 1745. James’s son, James Francis Edward Stuart, continued the struggle after his father’s death, as his son in turn would do after his, making the Jacobite struggle to regain the throne of England one of the great lost causes of European history. The longevity of this lost cause and the number of people who rallied beneath its banner is an indication that something more than just the Stuarts’ “hereditary right to rule”⁵ was at stake.

At stake was who was going to rule the world. The Jacobites represented a world that was Catholic and feudal, bound to tradition, traditional loyalties, clan and soil; whereas the Whigs, their opponents in this struggle, stood for a world that was Protestant, committed to abstract principles as the source of governance, and, more important than anything else, capitalism as the ideology that united its disparate elements. When Sir Walter Scott wrote that this division “shook Eng-

land to her very centre” during the Jacobite rising of 1715, his claim was *a fortiori* true of the situation eight years earlier when “a powerful party, engaged in the Jacobite interest, menaced the dynasty of Hanover, which had been just established on the throne.”⁶

The Whigs knew they lacked legitimacy, and so they, like their Puritan forbears, were inclined to look for signs of election in the course of history and everyday events, and like their forbears the Whigs tended to find these signs in the economic sphere. Deprived of the traditional hereditary sanction of legitimacy and plagued by the accusation that they were nothing but opportunistic usurpers, the Whig party began to shift the basis of their claims to the booming economy which followed the revolution.

That boom began in Scotland with the Act of Union in 1707, which threw open colonial markets to Scottish merchants, in particular to those merchants in Glasgow engaged in the tobacco trade. The Act of Union would have far-reaching economic consequences for both Scotland and the New World. Glaswegian Presbyterian merchants capitalized on the opportunity by exploiting American tobacco farmers, “who came to hate them” and as a result grew restive under the yoke of British imperialism.

After the tobacco trade began to boom, the Whig Presbyterian merchant class began to grow in wealth and power, but the rest of Scotland, like the tobacco farmers in America, grew restive under their yoke. In 1707 after John Law left Scotland because his native land refused to implement his proposal for a land bank, the Scottish Parliament passed the Act of Union, uniting Scotland and England, and putting itself out of business. The dissolution of the Scottish parliament may have put the Presbyterians on the road to wealth, but it put the Jacobites on the road to rebellion. In 1708, James Edward Stuart arrived at the mouth of the Firth of Forth carrying a proclamation calling for repeal of the treaty of union and reinstitution of the Scottish parliament. The Jacobite rising of 1708 was the response to his appeal.

After Glasgow became wealthy in the tobacco trade, that new-found wealth led to a desire to propagate the Whig lifestyle through the creation of institutions like Scottish Society for Propagating Christian Knowledge, which sent its first missionaries to the Highlands in 1714. The SSPCK missionaries were sent to regions “where error, idolatry, superstition, and ignorance do most abound,” including “the Highlands, islands and remote corners” of Scotland and “Popish and infidel parts of the world” abroad.⁸

The SSPCK would extend its efforts to the colonies as well, when they tried to proselytize the Algonquin Indians of Maine by presenting them with “small compliments of pipes and tobacco.”⁹ Those efforts met with little success because the SSPCK missionaries failed to learn the natives’ language and were unable to teach any of their proselytes English. As a result the Presbyterian gospel wasn’t preached to the Indians of the New World.

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On August 1, 1714, Anne Stuart, sister of Mary, the wife of William of Orange died without issue in spite of 17 pregnancies during her marriage. The succession crisis was resolved when her second cousin, George I, of the House of Hanover ascended to the throne in the same year.¹⁰ Although nominally a Stuart through his relation to his maternal grandmother Elizabeth, who was a daughter of James VI and I, George was physically unattractive, spoke no English, and was perceived as an alien incompetent. His main claim to the throne was his Protestant faith, which had become a non-negotiable demand for the Whig oligarchs who installed him in power. George returned the favor when he "appointed a government consisting entirely of Whigs. . . and supported a purge of all Tories from public life."¹¹ The Whigs' heavy-handed support of the Hanoverians led to the Jacobite rising of 1715, which began when the Earl of Mar, the Secretary of State who had special responsibility for Scotland, raised the Jacobite standard on the Braes of Mar on September 6, 1715.¹²

In *Rob Roy*, Sir Walter Scott's "brilliant though imaginative contribution to the historiography of the 1715 Jacobite rising,"¹³ Scott claims that the Earl of Mar's attempt to set up the Stuart standard and bring the English and the Scots together in a common cause that united Lowlanders and Highlanders backfired and instead brought about "the ruin of many honorable families in both England and Scotland."¹⁴ The reasons were largely economic.

The main thing that changed Scotland was commerce, and the main thing that promoted commerce in Scotland was the union of 1707. As Andrew Fairservice complains in *Rob Roy*: "things were strangely changed in his country sin' the sad and sorrowfu' Union." Andrew, according to the narrator, "Referred every symptom of depravity or degeneracy which he remarked among his countrymen"¹⁵ to the Union, which by "increasing trade with the West Indies and American colonies. . . laid the foundation of wealth and prosperity, which carefully strengthened and built upon, may one day support an immense fabric of commercial prosperity."¹⁶

Like Frank Osbaldistone, the novel's protagonist, Walter Scott's father was a businessman who had dealings with the Highland lairds. Scott recalls one of those clients: Stuart of Invernahyle, a Highlander "who had been out in both 1715 and 1745, and whose tales were the absolute delight of my childhood." As a result of hearing those tales, Scott claims that he "became a valiant Jacobite at the age of ten years old."¹⁷

That Scott changed his views as an adult is obvious from a reading of *Rob Roy*, which seasons his youthful ardor for the Jacobite cause with a sense that the supporters of the Pretender are on the losing side of history and, as such, the quintessential lost cause. In spite of the sympathies Scott had picked up as a child, Frank Osbaldistone, the narrator Scott created for *Rob Roy*, acquired

a sincere aversion to the northern inhabitants of Britain, as a people blood-thirsty in time of war, treacherous during truce, interested, selfish, avaricious

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and tricky in the business of peaceful life, and have few good qualities, unless there should be accounted such, a ferocity which resembled courage in martial affairs, and in commerce a sort of wily craft, which supplied in the place of wisdom in the ordinary commerce of mankind.¹⁸

The conviction that the Highlanders were “a race hostile by nature to the more southern inhabitants of this realm,”¹⁹ suffuses Scott’s novel. The Highlanders seemed like a different race, if not a different species. And the contrast is most apparent when they arrived in Glasgow, “Saint Mungo’s favorite city,” to engage in commerce:

The dusky mountains of the Western Highlands often sent forth wilder tribes to frequent the marts of Saint Mungo’s favorite city. Herds of wild, shaggy, dwarfish cattle and ponies, conducted by Highlanders, as wild, as shaggy, and sometimes as dwarfish as the animals they had in charge, often traversed the streets of Glasgow. Strangers gazed with surprise on the antique and fantastic dress and listened to the unknown and dissonant sounds of their language, which the moutaineers, armed ever while engaged in this peaceful occupation with musket and pistol, sword, dagger, and target, gazed with astonishment on the articles of luxury of which they knew not the use, and with avidity which seemed somewhat alarming upon the articles which they knew and valued.²⁰

The divisions were essentially religious, but they carried with them two different economic worldviews. Frank Osbaldistone, the novel’s narrator, is an Englishman, a Presbyterian, and a Hanoverian, “committed to Protestantism and liberty as the underpinning of economic prosperity.”²¹ Scott knew Adam Smith as a young man and remembered the impression that the eccentric Smith made while walking in the streets of Edinburgh. Smith, Scott wrote,

had a manner of talking and laughing to himself, which often attracted the notice and excited the surprise of the passengers. He used himself to mention the ejaculation of an old market-woman, “Hegh, sirs,” shaking her head as she uttered it; to which her companion answered, having echoed the compassionate sigh, “an he wis well put on too!” expressing her surprise that a decided lunatic, who, from his dress, appeared to be a gentleman, should be permitted to walk abroad.²²

Scott also owned a copy of Smith’s *magnum opus* *Wealth of Nations* and felt that “Protestantism, liberty and economic development” formed a seamless cultural garment that was the antithesis of everything that the Highlanders represented. Like Scott, William Osbaldistone, the narrator’s father, “links liberty and commerce” in the same way that Adam Smith did in *Wealth of Nations*, making Whig economic theory “central to the novel.” Scott uses the term “political economy” throughout *Rob Roy* in the same sense Smith used it in *Wealth of Nations*:

considered as a branch of the science of as statesman or legislator, [which] proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly to supply the state or commonwealth with a

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revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.²³

If the Whig Lowland Presbyterian Scots were scandalized by the barbarism of their popish Jacobite Highland countrymen, the feelings were mutual, but the effect of commerce on the Highlanders was more pernicious and long-lasting. The Highlanders were exploited and seduced by consumerism, which Scott characterizes as their introduction to “article[s] of luxury of which they knew not the use.”²⁴

In *Wealth of Nations*, Scott could read Smith’s account of the fatal attraction which useless consumer items like “a pair of diamond buckles” held for feudal chieftains like the Highland lairds. The Highland Scots may have been impervious to the SSPKC and its program of political and religious reform, but they were helpless against the forces of “commerce.” Scott could see that the Highlanders were being seduced into surrendering their labor in exchange for a wage which was based on the total appropriation of surplus value, and hence destined to make the Whig oligarchs rich and leave their Highland employees in penury:

Many of their inhabitants strayed down to Glasgow—there formed settlements, and there sought and found employment, though different indeed from those of their native hills. This supply of hardy and useful population was of consequence to the prosperity of the place, furnished the means of carrying on the few manufactures which the town already boasted, and laid the foundation of its future prosperity.²⁵

According to Smith, the political power of the Highland lairds, and by extension all feudal cultures, was destroyed when the lairds decided to spend their wealth on luxury items instead of feeding the “unnecessary mouths” of their vassals:

By the removal of unnecessary mouths, and by exacting from the farmer the full value of the farm, a great surplus . . . was obtained for the proprietor, which the merchants and manufacturers soon furnished him with a method of spending upon his own person in the same manner he had done the rest.²⁶

Commerce, in other words, brought about cultural change more thoroughly and profoundly than anything effected by religion or force of arms:

But what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers.²⁷

Smith is referring to one of the great changes in European economic history, the change from a feudal to a money economy which took place from the 14th to the 18th century. In England, the change began in dramatic fashion with the Reformation, the looting of Church property, and the enclosure movement, which drove rural agricultural workers off the land and turned them into the rootless

proletariat which would eventually find employment in the factories created by the industrial revolution. These people were deprived of their livelihood, as Smith puts it "For a pair of diamond buckles, perhaps, or for something as frivolous and useless."²⁸ Their erstwhile lords "exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year," for "article[s] of luxury of which they knew not the use," and as a result they lost their political power, "the whole weight and authority" of which depended on human labor.

The now impotent lords could console themselves with the thought that:

The buckles . . . were to be their own, and no other human creature was to have any share of them; whereas in the more ancient method of expense, they must have shared with at least a thousand people. . . . And thus for the gratification of the most childish, the meanest and the most sordid of all vanities, they gradually bartered their whole power and authority.²⁹

Smith came to understand the pernicious effect that commerce had on traditional cultures when he returned to Edinburgh as a Whig pedagogue in the wake of the Jacobite rising of 1745. Scott, having learned his economics from the *Wealth of Nations*, portrayed that lesson in *Rob Roy*, which is the story of a war between the two economic systems contending for hegemony in Scotland in the wake of the Revolution of 1688.

Scott's *Rob Roy* is based on the story of Robert MacGregor, a Highland chieftain who took part in the Jacobite rising of 1715 and was one of 49 Scots who was "attainted," i.e., accused of high treason and whose property was confiscated as a result. The historical Rob Roy was a victim of usury. Up until 1712, Rob Roy "was a respectable cattle dealer and landowner,"³⁰ but after borrowing money from the Duke of Montrose (at 60 percent per annum according to the film of 1996), The MacGregor went bankrupt and became an outlaw. Rob Roy is a Catholic, and Scott portrays him as such:

He walked up and down the hut, crossed himself from time to time, muttering over some Latin prayer of the Catholic Church, then wrapped himself in his plaid, with his naked sword on one side, and his pistol on the other, so disposing the folds of his mantle that he could start up on a moment's warning, ready for instant combat.³¹

Like Rob Roy, "many northern gentry, a very large proportion of whom were Roman Catholics, were in desperate financial straits by 1715."³² As a result, Rob hates "commerce," the system which allows "the miserable Highland drover, bankrupt, barefooted," to be "stripped of all, dishonored and hunted down because of the avarice of others."³³

Because Rob is tied to his native soil, he spurns Frank Osbaldistone's offer of exile in France at the court of the Pretender because "my heart would sink, and my arm would shrink and wither like fern in the frost, were I to lose sight of my native hills . . . and Helen, what could become of her, were I to leave her the subject of new insult and atrocity?"³⁴ The MacGregor is the antithesis of Jarvie the Baillie,

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who "is a brilliant illustration of Scott's awareness of Smith's great theme, how the selfishness of the individual pursuit of wealth can be reconciled with social obligations to one's fellow men and country."³⁵

Jarvie the Baillie, the representative of the Whig worldview, wants to drain Loch Lomond, near Rob Roy's beautiful home, and put the land to commercial use. After turning the lake bottom to farmland and "giving plough and harrow mony hundred, ay, mony a thousand of acres from whilk no man could get earthly gude e'enow, unless it were a gedd or a dish of perch now and then,"³⁶ Jarvie would "preserve a portion of the lake just deep enough and broad enough for the purposes of water-carriage, so that coal barges and gabbards should bass as easily between Dumbarton and Glenfalloch as between Glasgow and Greenock."³⁷

By the time Scott, the student of Adam Smith, was telling his version of the Jacobite Rising of 1715, 100 years after the fact, the main economic issue was labor. Thinking that he is doing Rob Roy a favor, Jarvie the Whig offers his sons employment in one of the textile mills of Glasgow, where the industrial revolution will soon take hold. Jarvie is taken aback at The MacGregor's vehement response to what he felt was a good faith offer: "My sons weavers!" Rob Roy exclaims, "I would see every loom in Glasgow, beam, treddles and shuttles, burned in hell fire sooner!"³⁸

Rob Roy hates capitalism because he, like Adam Smith, sees it as the antithesis of Highland culture. He is especially vehement in rejecting Jarvie's well-meaning offer because he sees in an inchoate way that the factory system which is taking root in Great Britain will engage in the systematic appropriation of all of the surplus value which accrues from Scottish labor, and that that value will then be forged into weapons, both literal and covert, which will destroy Highland culture.

Scott may have been a Jacobite at the age of 10, but by the time he wrote *Rob Roy* his writings were suffused with a sense of doom for the culture he loved as a child. On the one hand, there is the landed gentry sunk in gluttony, sloth, papistry and outmoded ideas, symbolized by Sir Hildebrand and his brood. The Osbaldistones of Osbaldistone Hall unite in themselves many of the characteristics of Jacobite opposition, including financial destitution. On the other hand, we have Mr. Osbaldistone, the successful Whig and London merchant. Toward the close of his adventures in the Highlands, Frank the scion of the Whig financial firm in London, whose papers he has been sent to Scotland to retrieve, learns that his father has returned from Holland flush with cash because of "eminent success in his continental speculations."³⁹ The elder Osbaldistone's financial wizardry not only thwarts the machinations of MacVittie and Company, it also saves the day for the Whig cause in their struggle against the Pretender:

When we reached London, we immediately associated with those bankers and eminent merchants who agreed to support the credit of the government, and to meet that run upon the Funds, on which the conspirators had greatly founded their hope of furthering their undertaking by rendering the government, as it

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were, bankrupt. My father was chosen one of the managers of this formidable body of the monied interest, as all had the greatest confidence in his zeal, skill, and activity.⁴⁰

Osbaldistone's financial leadership of the Whig "bankers and eminent merchants who agreed to support the credit of the government" stops the run on the Bank of England, shores up government credit, prevents the depreciation of bond prices, which in turn enables further government credit, which enables the Hanoverians to mount an army which will eventually defeat the economically challenged Jacobite rebels. Osbaldistone "contrived, from funds belonging to his own house, or over which he had command, to find purchasers for a quantity of the national stock, which was suddenly flung on the market at a depreciated price when the rebellion broke out."⁴¹

This is perfectly consistent with what Adam Smith said in the *Wealth of Nations* when he described the superiority of Whig money men over the landed aristocracy. According to Smith,

A country abounding with merchants and manufacturers, therefore, necessarily abounds with a set of people who have it at all times in their power to advance. . . a very large sum of money to Government. Hence, the ability in the subjects of a commercial state to lend.⁴²

Capitalism is an economic system which is based on the systematic, contractual appropriation of all surplus value, as implemented by the factory system which Rob Roy so indignantly rejects as an option for his sons, and the enforcement of usurious contracts. The refusal to honor usurious contracts was typical of Catholic states and monarchs, and it is ultimately what drove the Stuarts from the throne of England. The Whigs had no intention of allowing that situation to prevail again because, as Smith puts it: "Commerce and manufactures can seldom flourish long in any state . . . in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay."⁴³

As the beneficiaries of usury, via the Bank of England, the Whigs got to have their cake and eat it too:

By lending money to government, they do not even for a moment diminish their ability to carry on their trade and manufactures; on the contrary, the commonly augment it. The necessities of the state render government upon most occasions willing to borrow upon terms extremely advantageous to the lender.⁴⁴

The Jacobite landed gentry in Scotland and England did not profit from this arrangement and ended up on the losing side of history, where they were destined to be swept away by a more powerful economic system.

Rob Roy concludes with Frank the scion of Whig interests taking over the Osbaldistone estate in Northumberland from the defeated Sir Hildebrand and marrying the fiery Jacobite termagant Di Vernon. The eclipse of the Jacobite landed gentry was inevitable because of the superiority of capitalism. Or as Frank puts it:

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"my father's . . . large gains, by the recent rise of the funds, having made it a matter of ease and convenience for him to pay off the debt which affected his patrimony."³⁵

Scott seems to be telling us that the outcome of the rising of 1715 was a foregone conclusion because money now wins wars, not valor. By the beginning of the 18th century, the ability to fight wars was based on the ability to finance them. Britain's "efficient national finance system" provided the Whigs with superior armies, which allowed them to defeat their economically backward Jacobite opponents. The entire system depended on the Whig insistence on the enforcement of usurious contracts, because only a state which placed "constitutional checks on the crown which effectively prevented the government from arbitrarily changing rates of interest (as France had done in 1704), allowed the government to raise money from both major English investors and abroad in Amsterdam."³⁶ William Osbaldistone is "knowledgeable about financial instruments, hugely confident, and Protestant."³⁷ Because they lack Osbaldistone's financial acumen, Catholics like Rob Roy in Scotland and Sir Hildebrand in Northumberland, "are driven into rebellion by their financial desperation"³⁸ and ultimately defeated.

The aftermath of the rising of 1715 led to a number of measures, largely ineffectual, like the Disarming Act for the Highlands of 1716. More ominous was the attitude toward labor which prevailed among the victors. Hundreds of Jacobite soldiers were sold into slavery after their capture at the battle of Preston in 1715. Confronted with a choice between instant death at the hands of the hangman and slow death as an indentured servant in the colonies, "at least 639 men, mostly Highlanders," chose the latter option and "were sent in bondage to North America and the Caribbean. The prisoners were sold in Maryland, Virginia, South Carolina, Jamaica, Barbados, St. Kitts, and Antigua."³⁹

Endnotes

- 1 Walter Scott, *Rob Roy* (Edinburgh: University Press, 2008), p. 185.
- 2 Geoffrey Plank, *Rebellion and Savagery: The Jacobite Rising of 1745 and the British Empire* (Philadelphia: University of Pennsylvania Press, 2006), p. 16.
- 3 Scott, p. 471.
- 4 Plank, pp. 16-7.
- 5 Plank, p. 17.
- 6 Scott, p. 33.
- 7 Plank, p. 33.
- 8 Plank, p. 13.
- 9 Ibid.
- 10 "Anne Queen of Great Britain," *Wikipedia*, http://en.wikipedia.org/wiki/Anne,_Queen_of_Great_Britain
- 11 Scott, p. 473.

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- 12 Scott, p. 474.
- 13 Scott, p. 479.
- 14 Scott, p. 317.
- 15 Scott, p. 154.
- 16 Ibid.
- 17 Scott, p. 352.
- 18 Scott, p. 31.
- 19 Ibid.
- 20 Scott, p. 155.
- 21 Scott, p. 394.
- 22 Nicholas Philippon, *Adam Smith: an Enlightened Life*, (New Haven: Yale University Press, 2010), p. 260.
- 23 Scott, p. 349.
- 24 Scott, p. 155.
- 25 Ibid.
- 26 Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Oxford: At the Clarendon Press, 1869), p. 416.
- 27 Smith, pp. 414-5.
- 28 Smith, p. 415.
- 29 Ibid.
- 30 Scott, p.475.
- 31 Scott, p. 301.
- 32 Scott, p. 472.
- 33 Scott, p. 300.
- 34 Scott, p. 303.
- 35 Scott, p. 350.
- 36 Scott, p. 311.
- 37 Ibid.
- 38 Scott, p. 296.
- 39 Scott, pp. 312-3.
- 40 Scott, pp. 317-8.
- 41 Scott, p. 318.
- 42 Smith, p. 510.
- 43 Ibid.
- 44 Ibid.
- 45 Scott, p. 328.
- 46 Scott, p. 474.
- 47 Scott, p. 475.
- 48 Ibid.
- 49 Plank, p. 18.

Chapter Fifty-One

The Creation of the Grand Lodge

In 1717, two Protestant clergymen, Dr. John Theophilus Desaguliers and Dr. James Anderson, met at the Apple Tree Tavern in London and created a governing authority for the lodges in England known as the Grand Lodge.¹ According to Masonic sources, the Grand Lodge was created in 1717 in reaction to the Jacobite Rising of 1715. Anderson, in a much-quoted passage, describes the steps taken, after the suppression of the 1715 Jacobite rising, by four old London Lodges to establish themselves under a Grand Master in order that regular joint meetings of their officers—"called the Grand Lodge"—might be "revived."²

James Anderson was a Scots Presbyterian minister who supported the Glorious Revolution that drove fellow Scot James II from the throne and handed it to the Dutch usurper. Anderson wrote Whig propaganda for the members of the Lodge and was recognized as the author of the new Masonic Constitution published in 1723. The publication of the Constitution was contemporaneous with the formation of the Grand Lodge in London, which is often, although erroneously, cited as the birth date of Freemasonry. Publication of the Constitutions signaled was Whig takeover of Freemasonry. Grand Lodges were established in Ireland in 1725, in Scotland in 1736, where they supplanted the Jacobite lodges which had existed since the 16th century, and America by 1734, which is the date on which Benjamin Franklin became Grand Master of the Pennsylvania Lodge. Eventually, according to the Masonic Source Book, "Each state in the USA" would have "its own Grand Lodge."

Professor John Robison, American author of *Proofs of a Conspiracy*, deplored Anderson's book as "the heap of rubbish with which Anderson disgraced Freemasonry" because it excluded the Scottish traditions which Whig Prime Minister Robert Walpole felt were fatally associated with the Jacobites. Walpole probably encouraged Anderson and Desaguliers to take over the English lodges because he understood the role the Ecossais Lodges had played in the restoration of the Stuart line to the throne in 1660. If those lodges, "scattered across Europe" in "established clandestine Masonic networks," were left unhindered, history might repeated itself and the lodges put an offspring of James II on the throne.

Walpole's best allies in the struggle over control of the lodges were Huguenot exiles like Desaguliers, who was initiated into the Lodge in 1713 and

inducted as a member of the Royal Society one year later. He studied under John Keill at Oxford and was considered proficient enough in Newtonian science to take over his master's lectures on Newton when Keill was away. After graduation, Desaguliers became a lecturer in Newtonian science. Since Newton became the godfather of one of Desaguliers' children, we can assume that the Master approved of what he had to say.

After his retirement from the office of Grand Master in 1720, Desaguliers went to the continent, where he initiated a number of influential noblemen into the craft. Holland, at the time, was a hotbed of Masonic activity, aimed at the overthrow of the Bourbon monarchy. Eight years after the Jacobite rising of 1715, the Jacobite lodges were abolished and Freemasonry became the main instrument of Whig covert warfare on the continent. At the hands of people like the Desaguliers, the Masonic lodges on the continent became promoters of Newtonian physics, Whig politics and English capitalism, all were parts of a concerted effort to bring down the House of Bourbon in France.

Desaguliers "went insane at the end of his life,"³ but not before he succeeded in turning the lodges into vehicles for Newtonian science and Whig politics. The Masonic promotion of Newton provided an alternative to the Cartesianism triumphant on the continent as well as the theoretical foundation for limited monarchy as alternative to the absolutism promoted by the Bourbons in France. It also provided the foundation for capitalism as the overarching system which incorporated and ordered all of the social changes which the Whig oligarchs wanted to impose on the British empire. In 1731, Desaguliers was at the Hague, where he "presided as Worshipful Master of a Lodge organized under a special Dispensation for the purpose of initiating and passing the Duke of Lorraine, who was subsequently Grand Duke of Tuscany, and then Emperor of Austria as well as of Germany. The Duke was, during the same year, made a Master Mason in England."⁴ Under the increasing cultural influence of the Whig-inspired lodges of the 1720s, radical ideas flowed from Holland south into France.

In 1722 Francois Marie Arouet was an unknown but ambitious French writer who had written a long poem glorifying the French king he thought most resembled the constitutional monarchs who were the crowning achievement of English culture in the wake of the Glorious Revolution. The English king at the time was a German, and the poem, which came to be known as *La Hendriade*, sang the praises of the tolerant and enlightened Henry IV, who was king of France from 1598 to 1610. *La Hendriade*, which was calculated to curry favor with the English, was written in French, but none of this mattered to Arouet, who would later become famous under the name of Voltaire. The first stop on Voltaire's road to fame was Brussels, where he heard of the radical republican publishers in the Hague

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who might be interested in his epic poem, written in French, that glorified things English.

In 1725 Voltaire met the Whig spy Bacon Morris. In 1724 Morris was in Rome, collaborating with Walpole's spy and "art dealer" von Stosch. The Jacobites in Rome suspected that Morris was sent by Walpole to spy on the Pretender. Morris carried a gun in Rome, and, presumably armed, he once approached the Pretender on the street. Shortly thereafter an attempt was made on Morris's life, and Charles Edward Stuart became so alarmed that he went directly to the pope, who ordered his secret service, which had Morris under surveillance, to deport him to France. During his convalescence in France Morris met Voltaire.

In 1726 Voltaire got into an argument with the Chevalier de Rohan which landed him in the Bastille for the third time. His imprisonment was followed by a sentence of banishment, and Voltaire chose England as the place of his exile. Voltaire sailed for England carrying letters of recommendation from the British ambassador to Paris, Horatio Walpole. Voltaire almost certainly got the letters at the behest of Bacon Morris, who acted as Walpole's spy and agent in Rome. Arriving under these auspices ensured a cool reception by the English aristocracy. Crowley says that Voltaire was "treated with distrust and reserve in England" because the aristocracy knew of his connections with Morris. He also claims this is the reason that Voltaire, "the apostle of English ideas," never returned to England, even after achieving fame as a promoter of everything English.⁵

Voltaire was lionized nonetheless by the Whigs as part of "the king's new political strategy of trying to make Anglo-French relations cordial and make the French pro-Hanoverian and anti-Jacobite." The ease with which Voltaire found support from the Whig government led many to conclude he was on their payroll as a spy.

The poet Alexander Pope was only of those who accused Voltaire of being a spy. Voltaire's meteoric rise to fame was too puzzling to explain by appealing merely to his literary merit. In a few short years, Voltaire had gone from being a prisoner in the Bastille to having an audience with the King of England and being entertained by the most powerful Whig magnates in the land which was now contesting France for global hegemony.

The Whigs certainly got their money's worth when Voltaire became their publicity agent. During his three years in England, Voltaire met with Samuel Clark and other prominent Newtonians, and, after digesting Newton's system, he launched a violent attack on Descartes, the *fons et origo* of continental philosophy.

In 1728 Voltaire returned to France, where he became the "apostle of English ideas," promoting constitutional government, "tolerance," capitalism, intellectual "freedom," Freemasonry, and Newtonian physics: in

short, the Whig view of the world. In 1733 Voltaire published *Lettres philosophiques*, a piece of Whig propaganda that had an immense influence in France. In 1738, Voltaire increased that influence when he wrote *Elements of the Philosophy of Newton*.

In *Lettres philosophiques*, Voltaire tacitly recognized the fact that capitalism had become the new state religion in England when he described the Royal Mercantile exchange as a Temple to Commerce where:

the representatives of all nations meet for the benefit of mankind. There the Jew, the Mahometan, and the Christian transact together, *as tho' they all profess'd the same religion*, and given the name of Infidel to none but bankrupts. There the Presbyterian confides in the Anabaptist, and the Churchman depends on the Quaker's word . . . (my emphasis).⁶

As a result of Voltaire's work, capitalism found many worshippers in the Francophone world during the 18th century.

The goal of English foreign policy during the 18th century was to promote the French equivalent of the Glorious Revolution, and to do to the Bourbons what the Whigs had done to the Stuarts. The Whigs focused their attention on the Bourbon monarchy because by the beginning of the 18th century France had succeeded Spain as the champion of the Catholic forces in Europe. France, unlike Spain which had the benefit of the Inquisition, was intellectually compromised. The Catholic intellectual elite in France had all adopted Masonic Newtonian Capitalism (and the politics that went with it) as the nucleus of the world-view they characterized as enlightened. Christopher Dawson refers to this transformation as "the victory of bourgeois civilization."⁷ That victory "made England rich and powerful, but at the same time it has destroyed almost everything that made life worth living. It has undermined the natural foundations of our national life, so that the whole social structure is in danger of ruin."

Throughout *le grand siecle*, in fact until the French Revolution, France was an intellectual battleground between the Capitalism, or "bourgeois civilization," and the traditional culture of French Catholicism. Once the Church began to lose that battle:

French eighteenth-century culture became an open door through which the bourgeois spirit penetrated the closed world of Baroque Catholicism, first as a leaven of criticism and new ideas, and finally as a destructive flood of revolutionary change which destroyed the moral and social foundations of the Baroque culture.⁸

Like the Jacobite culture of the Highland Scots, the deficiencies of the French Catholic economic system *vis à vis* the English banking system:

left it powerless to withstand the highly organized financial power of the new commercialist bourgeois society. It went in the same way that the Hellenistic world succumbed to the superior organization of Roman imperialism. Never-

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theless it did not succumb without a struggle, for wherever the common people possessed the power of organization and the means of defence, and wherever the religious tradition of the Counter Reformation had struck deep roots in the soil, they fought with desperate resolution and heroism in defense of the old Catholic order, as in La Vendee in 1793, in Tirol in 1809, and in the Basque provinces till late in the 19th century.⁹

The Jacobite risings which found their epicenter in the Highlands of Scotland preceded all of the Catholic counter-revolutionary movements which Dawson mentions. The intellectual arsenal which the Whigs used to defeat the Jacobites, especially after the failed rising of 1745, became the paradigm whereby they imposed Whig capitalism on the rest of the world, beginning with North America. The metaphysical foundation of that ideology was Newtonian physics. The bourgeois mind is Newtonian. There is no entelechy to being; all motion is applied externally. Creation is commodified. Everyone becomes a merchant because he has a merchant's understanding of creation. According to Dawson:

The attitude of the bourgeois . . . is that of the merchant whose relation to his merchandise is external and impersonal. He sees in them only objects of exchange, the value of which is to be measured exclusively in terms of money. It makes no difference whether he is dealing in works of art or cheap ready-made suits: all that matters is the volume of the transactions and the amount of profit to be derived from them. In other words, his attitude is not qualitative, but quantitative.¹⁰

The bourgeois mind is Capitalist because:

The bourgeois lives for money, not merely as the peasant or the soldier or even the artist often does, but in a deeper sense, since money is to him what arms are to the soldier and land is to the peasant, the tools of his trade and the medium through which he expresses himself, so that he often takes an almost disinterested pleasure in his wealth because of the virtuosity he has displayed in his financial operations. In short the bourgeois is essentially a *moneymaker*, at once its servant and its master, and the development of his social ascendancy shows the degree to which civilization, and human life are dominated by the money power.

This is why St. Thomas and his masters, both Greeks and Christians, look with so little favour on the bourgeois. They regarded money simply as an instrument, and therefore held that the man who lives for money perverts the true order of life. "Business," says St. Thomas, "considered in itself, has a certain baseness (*turpitudō*) inasmuch as it does not of itself involve any honorable or necessary end."¹¹

The Catholic ethos, on the other hand, is "erotic," if in using the term erotic we define its quintessential type as "the religious mystic, the 'man of desire,' like St. Augustine or St. Francis." That means that:

it is obvious that the Christian ethos is essentially antibourgeois, since it is an ethos of love. This is particularly obvious in the case of St. Francis and the medi-

aeval mystics, who appropriated to their use the phraseology of mediaeval erotic poetry and used the antibourgeois concepts of the chivalrous class-consciousness, such as "*adel*," "*noble*," and "*gentile*," in order to define the spiritual character of the true mystic.¹²

The best example of the opposition of Sombart's two types can be found in the contrast between the culture of the Counter Reformation lands with that of seventeenth-century Holland and eighteenth-century England and Scotland and North America. The Baroque culture of Spain and Italy and Austria is the complete social embodiment of Sombart's "erotic" type. The bourgeois mind is Protestant:

It was not until the Reformation had destroyed the control of the Church over social life in Northern Europe that we find a genuine bourgeois culture emerging. And whatever we may think of Max Weber's thesis regarding the influence of the Reformation on the origins of capitalism, we cannot deny the fact that the bourgeois culture actually developed on Protestant soil, and especially in a Calvinist environment, while the Catholic environment seemed decidedly unfavourable to its evolution.¹³

Catholicism and Capitalism are mutually incompatible globalist systems which are condemned by the very nature of their creeds to aspire to universal hegemony and, therefore, be in conflict with each other. The first phase of that conflict began when Philip II sent the Spanish armada to England to avenge the murder of Maria Stuart, otherwise known as Mary Queen of Scots. Dawson claims that:

The conflict between these two ideals of life and forms of culture runs through the whole history of Europe from the Reformation to the Revolution and finds its political counterpart in the struggle between Spain and the Protestant Powers. It is hardly too much to say that if Philip II had been victorious over the Dutch and the English and the Huguenots, modern bourgeois civilization would never have developed and capitalism in so far as it existed would have acquired an entirely different complexion. The same spirit would have ruled at Amsterdam as at Antwerp, at Berlin as at Munich, in North America as in South, and thus the moment when Alexander Farnese turned back a dying man from his march on Paris [sic, i.e., Amsterdam] may be regarded as one of the greatest turning points in world history. Even so it is quite conceivable that Europe might have fallen apart into two closed worlds, as alien and opposed to one another as Christendom and Islam, had it not been that neither culture was strong enough to assimilate France.¹⁴

By the 18th century, the struggle between Catholicism and Capitalism had become a struggle between England and France. In the decades following the Glorious Revolution, as the Whigs consolidated their power via commerce over their Jacobite and Tory enemies, England became more unified and more committed to the Capitalist creed, whereas France, largely because of Masonic subversion, became progressively weaker and

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crippled by a fifth column, Freemasonry, whose allegiance was to the enemies of their country. Freemasonry, bolstered by Newtonian physics and Whig finance, gave England the upper hand intellectually for the first time since Father Mersenne demolished the arguments of Robert Fludd and the English alchemical tradition under John Dee. The intellectual currents were now flowing in the opposite direction, and the zeal of the Counter-Reformation and the Baroque culture it sustained began to fade in France, where the battle for world hegemony was most acute. Or, as Dawson puts it:

For a time during the first half of the 17th century, the Counter Reformation and its culture carried everything before them, but the bourgeois spirit in France was already too strong to be eliminated and it allied itself with the monarchy and the Gallican church against ultramontane Catholicism and Baroque culture.¹⁵

Since, as Dawson points out, "The true opposite to the bourgeois is not to be found in the communist, but in the religious man — the man of desire," the Jesuits were rightly perceived as the antithesis of the bourgeois spirit by their enemies in France. In order to resolve the conflict over capitalism, which was rending the fabric of traditional Catholic culture in France, the French had to choose as their paradigm either the Enlightenment as embodied in a figure like Voltaire, or the Jesuits, the last gasp of the Counter-Reformation. France, unlike England, Holland, Scandinavia, and half of the Germanies, never became Protestant. Deprived of a domestic apostolate in France because the Counter-Reformation was unnecessary, French Jesuits focused their zeal on the New World.

As a result, the attack on the Jesuits focused on their activities in the New World, in particular on the economic system they had created to enculturate Christianity among the indigenous peoples. The Masonic attack on the Church began as an attack on the Jesuits in Paraguay, largely at the hands of high-placed Masons like the Portuguese Duke of Pombal and le Duc de Choiseul in France.

Endnotes

- 1 E. Michael Jones, *The Jewish Revolutionary Spirit and its Impact on World History* (South Bend, IN: Fidelity Press, 2008), cf. "The Rise of Freemasonry," p. 473ff for a detailed discussion of the Whig takeover of Freemasonry.
- 2 "John Theophilus Desaguliers," *Masonicdictionary.com*, <http://www.masonicdictionary.com/desaguliers.html>
- 3 Ibid.
- 4 Ibid.
- 5 Jones, op. cit.
- 6 Voltaire, *Candide or All for the Best* (Peterborough, Ontario: Broadview Press, 2009), pp. 11-2.
- 7 Christopher Dawson, "Catholicism and the Bourgeois Mind," *Crisis Magazine*, December 27, 2011, <http://www.crisismagazine.com/2011/catholicism-and-the-bourgeois-mind>
- 8 Ibid.
- 9 Ibid.
- 10 Ibid.
- 11 Ibid.
- 12 Ibid.
- 13 Ibid.
- 14 Ibid.
- 15 Ibid.

Chapter Fifty-Two

The Jesuit Economy in Paraguay

When Champlain sailed up the St. Lawrence River in 1610 and landed at the plains of Abraham, the bluff upon which Quebec would be founded, he opened the door for the French Jesuits in the New World. In that same year the Jesuits founded the first reduction in Paraguay. In 1610, 60 years after the first Jesuits had arrived in Brazil, two Italian members of that order, Simon Maceta and Jose Cataldino, reached Ciudad Real in Guaira. . . From here they sailed north to the confluence of the Parana and the Paranapanema. Following this tributary eastward, they settled in March the same year on a site for an Indian township near the river bank. This was the first "Reduction" of the Jesuits in Guaira.¹ What followed was "a century and a half of toil and heroic sacrifice in the battle against the terrors of the wilderness and the indolence and fickleness of a primitive people, as well as against the reckless policy of exploitation followed by the Spaniards, to whom the Reductions were ever an eyesore. Down to 1764 29 Jesuits of Paraguay suffered death by martyrdom."²

The founding of the Jesuit reductions in Paraguay marked the beginning of the second phase of the European colonization of the New World. The first phase centered on Mexico and Peru and was characterized by the *auri sacri fames*, the accursed lust for gold. Since there was no gold in Quebec or Paraguay, the main issue where the Jesuits established their missions was labor.

The simplest way to appropriate the labor necessary to extract value from the American continent was through slavery. Because of the enormous demand which the colonies placed on labor, slavery became an issue almost immediately following the discovery of the New World. The biggest industry in the La Plata region when the Jesuit reductions were founded there was the slave trade. Shortly after the Spaniards arrived in the La Plata territory in 1515,

The natives, subdued by force of arms or submitting voluntarily were brought under the yoke of the Spanish *encomienda* system which in its more severe application made them *yanaconas*, or slaves, in its milder form *mitayas*, or serfs, to the *conquistadores* and the white colonists. The Spanish kings sought to better the lot of the natives by wise and humane decrees for their protection, but the difficulty of exercising control over them, and the unreliability, weakness, or selfishness of many of the officials permitted the abuse of this system to flourish. This system resulted in frequent uprisings of the subjugated race, and an

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implacable hatred of the foreigners on the part of the numerous tribes still retaining their freedom, accompanied even the earliest expeditions to La Plata, and churches and parishes were founded in the new steppes and forests in the interior, harassed the colonies, still in their youth, with inroads, and frequently laid them waste. It was not until the Reductions were founded that conditions were essentially improved in this respect also.³

Before long, “the criminal refuse of England, Holland, France and Portugal,” inspired by the desire “to lead a licentious life with impunity”⁴ intermarried with native women to create a new race whose sole goal in life was the theft of other people’s labor. This illegitimate spawn, which combined the worst features of European criminality and American savagery, came to be known as Mamelucos, a group made up of:

Excellent horsemen, skilled at paddling canoes, able navigators along the coast, crack marksmen and brave fighters, [which] subsisted by procuring Indians and leading them chained and corded to Sao Paolo, where they were herded into pens and sold like cattle to work in the mines and plantations of sugar, cotton, mandioca, and tobacco.⁵

The Mamelucos made Sao Paolo their stronghold; they were slave traders, and since the Jesuits had brought together large Indian populations, plundering the reductions became an irresistible temptation. The Mamelucos became the scourge of the Jesuit reductions, which they saw as low-hanging fruit. The reductions were attractive targets for the Mamelucos, not simply because the Jesuits had gathered a large number of Indians in one place, but, more importantly, because the Indians living in the reductions had learned how to work and hence were much more valuable than the hunter-gatherers the Mamelucos could have captured in the forest.

Work was considered a curse carried out by slaves in the classical world so that the upper class could live a life of indolence. That some thinkers in the classical world used the possibility of leisure to create great cultural achievements in philosophy and the arts is undeniable, but this is the exception that proves the rule, and it does nothing to contradict the contempt in which the classical world held labor.

The Jesuits did not march off into the Chaco of what is now Brazil or Paraguay or into the boreal forests of the Gaspé peninsula in what is now Canada and Maine with economic motives in mind. They wanted to bring souls sunk in vice and superstition to Christ for the greater glory of God—*ad maiorem Dei gloriam*, the motto of the Society of Jesus—but the Jesuits concluded that it was virtually impossible to bring about the conversion of any Indian nation which retained the hunter-gatherer existence. In order to convert the Indians, the Jesuits had to bring the wandering tribes together in settlements, and in order to do that the Jesuits had to teach the Indians how to work and provide an economy that could provide both sustenance

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and dispose of the surplus products of their labor. The Jesuits wanted to be heralds of the Gospel which would bring salvation to the heathen nations of the Americas, but in order to be effective evangelists they had to become economists willy nilly.

When it comes to labor, the hunter-gatherer exists in an intermediary state between civilized man and animals. He competes with animals on the animals' terms, with his only advantage in the tools and weapons he creates:

Providing for one's needs is an activity which animals. . . do instinctively. "What is specifically human here, as in all areas of human endeavor is rationality. Man takes care of providing for his needs as a reasoned being, in accordance with goals and according to. . . a plan (which is contrived by the human mind). The difference between an animal and man's providing for wants lies in the systematic nature of the latter. There are a lot of builders who cannot build as well as a bee or a beaver. . . But the least efficient human builder distinguishes himself from the highly efficient bee in that he first has a plan in his head for the house he intends to build, even though it may in fact be a flawed plan."¹⁰

When the Jesuits arrived in America, they discovered native peoples who were true human beings with immortal souls in need of salvation but who lived lives totally dependent on what the chance encounters with nature provided them. The result was a life of indolence interrupted by periods of hunger followed by strenuous effort, which was either rewarded or not rewarded. In the former instance, the Indians sat down and gorged themselves on whatever they had killed. In the latter instance, they not infrequently starved to death. In both instances, they gave the animals they hunted the upper hand which animals naturally had because of their ability to fly or swim or run faster or hide. The only advantage the hunter-gatherers had over the animals they hunted derived from the tools and weapons they had learn to forge from time immemorial.

The accounts which the Jesuits sent back to their superiors in Europe, known as the Jesuit Relations received wide publicity in France during the course of the 17th century. In October 1633 Father Paul Le Jeune, S.J. left Montreal and set off with the Montagnais tribe on their annual winter hunt. He did this in part to learn their language and in part to save souls. There were no other Frenchmen in the party. Every winter the Montagnais headed off into the forests south of the St. Lawrence river to hunt moose. They did this in winter because under normal conditions the moose were too large and too swift to be killed, as smaller game could, by bow and arrow. The Montagnais waited until the snow in the forest was waist deep, so that they could approach the floundering moose on their snow shoes and dispatch it with their spears. They then made camp, digging down through the snow to erect their teepees, and devoured the moose on the spot in a

repat in a smoke-filled tent in which they would consume as much as six pounds of moose meat a piece at one sitting.

Le Jeune recounted the story of the Montagnais moose hunt in the Relation he sent back to France. It is one long tale of suffering and misery. Winter temperatures were so cold that the teepees had to be heated like ovens in a vain attempt to find warmth. Le Jeune found that the fire "scorched him on one side," while "on the other he had much ado to keep himself from freezing."¹¹ When the weather was foul, "the tent filled with smoke forcing its inhabitants to press their faces into the dirt just below the tent wall to get fresh air." The Montagnais, Le Jeune wrote, summarizing the Jesuit view of the hunter-gatherers of North America, were "Unhappy infidels who spend their lives in smoke and their eternity in flames."¹²

Le Jeune's first chance to save souls came when he tried to minister to the sorcerer's wife, who was dying and being carried in a litter. Le Jeune found her at death's door, according to Parkman's account,

lying in the snow till the wigwam was made—without a word on her part of remonstrance or complaint. Le Jeune, to the great ire of her husband, sometimes spent the interval in trying to convert her; but she proved intractable and soon died unbaptized.¹³

Famine was an integral part of the existence of the hunter-gatherer nations because the food supply was a function of chance encounter and the vagaries of the weather. In the winter of 1633 Le Jeune experienced the consequences first hand. Because the snows were late in coming, the Montagnais could not hunt moose, and, to make a bad situation worse, beavers and porcupines were scarce as well. The sorcerer called on his gods in vain as the sound of medicine drums mixed with the "wail of starving children"¹⁴ until hunger drove him "to try the efficacy of an appeal to the deity of his rival."¹⁵ Finally, on Christmas Eve, the Jesuit's prayers were answered, and "The Lord gave us for our supper, a porcupine, large as a suckling pig, and also a rabbit."¹⁶ There is no indication that the Montagnais were anything but grateful for good fortune as they gnawed the gamey flesh off the bones of the porcupine which was to serve as Christmas dinner for 20 people, because scenes like this were typical of

the ordinary winter life of all those Northern tribes who did not till the soil, but lived by hunting and fishing alone. The desertion or the killing of the aged, sick and disabled, occasional cannibalism and frequent death from famine were natural incidents of an existence which during half the year was but a desperate pursuit of the mere necessities of life under the worst conditions of hardship, suffering, and debasement.¹⁷

The situation in Paraguay was different but only because game was more abundant. Skill with the bow and arrow, which the Guarani possessed in abundance, was all that was needed to provide a meal. Three and

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a half centuries later, in the 1970s, the same situation prevailed among the Yanomami in the Amazon rain forest. In a film made by a medical team, the hunter-chieftain who greeted the doctors at their makeshift airport suddenly stopped on their walk to the village, raised his bow, shot an arrow, and dinner, a large bird hitherto invisible to the European fell from the sky.¹⁸

After the Spaniards arrived, they introduced cattle into the Chaco, which was destined to become one of world's great grazing areas. As a result, the cattle thrived, but the old habits of indolence perdured among the Indians. Caraman tells us that: "There was always abundant beef to be had for the labor of lassoing. In 15 minutes it was ready for the fire perpetually burning in the home. Ribs were the favorite portion, eaten when they had been toasted on the outside and still raw inside."¹⁹

If anything, the Guarani outdid the Montagnais in their sloth and gluttony, if for no other reason than because so much meat was so easily available. One Jesuit, according to Caraman, "reported seeing two Indians eat a whole ox in the space of two hours, throwing away only the head, feet, and entrails."²⁰ This was just one of the 50 oxen which were slaughtered every day "to satisfy the appetites of 7,000 Guarani."²¹ Since the Guarani lived almost entirely on beef which they consumed half-raw, most of them had worms and died before they reached the age of 50.

The Jesuits in both North and South America changed all this by moving the Indians into settlements and teaching them how to work in a systematic, rational fashion. The change made the Indians less subject to the vagaries of nature. It created a future that had predictability based on concerted effort, economic calculation and rational planning to a people whose actions were hitherto determined almost exclusively by appetite and chance.

In their attempt to bring the Gospel to the indigenous peoples of the Americas, the Jesuits quickly saw that economics, properly understood, had theological implications. The Indians believed in an afterlife before the Jesuits arrived, but it would hard be to describe that land of shades, where the soul became involved in more hunting and gathering, as the heaven which the Jesuits preached in their sermons.

That state of eternal life, in other words, could only be construed as a reward for a life of strenuous effort in the service of rational goals directed by faith. In the gospels, Jesus preached parables full of agricultural analogies which were to a large extent incomprehensible to hunter-gatherers like the Montagnais and the Guarani. The gospels presupposed a kind of work that was unknown to the Guarani who were sunk in a world of impulse, appetite, indolence and chance. In order to make the gospel comprehensible to the Guarani, the Jesuits had to gather them into communities and in-

troduce them to the concept of systematic labor. The *Catholic Encyclopedia* claims that:

The economic machinery of the Reductions could be kept in motion, and the Indians, naturally averse to work and thoughtless, brought up to systematic labour only by a well-regulated direction and control. Even the children were taught to work, and day by day some of them were occupied in the workshops and spinning-rooms under special overseers, while others were led out into the fields and plantations, to the joyous strains of music, following a statue of St. Isidore carried before them, and employed there for a few hours. The women were obliged, in addition to the performance of their household duties, to spin a certain amount weekly for the use of the community, to help during the sowing and harvesting of cotton and the like. Men who followed no particular trade were obliged to work at least two days weekly at communal undertakings, in the fields, or at public buildings, etc. All had to work during harvest time. Relaxation and recreation were provided in the hours set aside for leisure, which were passed in arranging common games, military drill-horse races, and so on, by the many feast-days and the days set aside for hunting trips and other expeditions. Cards and dice, however, were strictly forbidden. The heads of each community were entrusted with the direction of their communities. Besides, each branch of trade had its own superintendents and guild-masters, who constantly remained in touch with the missionaries, who watched over all and whose presence and authority formed the driving-wheel of the whole community. All officials were obliged to give exact account of their administration, and it is a matter of fact that the accounts and administration reports were in exemplary order, according to the testimony of the government inspectors. The superiors of the order also conducted an exact inspection every year. Labourers and such public employees as hospital attendants, sextons, and others were kept at public cost, and the private fields of draymen and ferrymen, shepherds and others, who were engaged in public service, were tilled by others for their benefit.²²

In teaching the Indians how to work, the Jesuits created an economy based on the introduction of agriculture. According to the *Catholic Encyclopedia*:

Cattle-raising attained a magnificent development, the entire country being rich in grass, and some *estancias* numbered as many as 30,000 sheep and more than 100,000 head of cattle, numbers which were not unusual in some of the Spanish *haciendas*. The herds were increased from time to time by the capture of wild cattle, and the breed improved by careful selection and breeding. Horses, mules, donkeys, and poultry were also raised on a large scale. In addition, hunting and fishing aided in providing support; these forms of sport were, however, restricted in the Guaraní Reduction for reasons of discipline. The individual Reductions devoted themselves more or less to one or the other branch of production, and supplied their wants by exchange with other Reductions. A written almanac of 1765, which the Salesian Fathers of Don Bosco discovered about 1890 at Asunción, contains on its parchment leaves, besides the calendar, an adviser for agriculturists, with particular reference to the climate of the country; the manuscript shows what knowledge and solicitude the apostolic missionaries devoted

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to agriculture.²³

In order to wean the Guarani from their addiction to alcohol, the Jesuits promoted the cultivation of yerba mate, a kind of tea. This cultivation was so successful that a surplus was regularly exported, which brought in hard currency, which allowed the Guarani to import manufactured items from Europe:

One of the most important products of the territory comprised by the Reductions was the so-called Paraguay tea (*herba*), which is still the largest article of export of the country. It consisted of dried leaves of the maté tree (*Ilex Paraguayensis*), crushed and slightly roasted, and drawn in boiling water; it was then, as it is now, the favourite beverage of the country and almost entirely displaced the intoxicating drinks to which the Indians had been addicted to a deplorable extent. Because the *herba* forests (*herbales*) frequently lay hundreds of miles distant, and the Indians there employed had to be deprived of regular pastoral care for too long a period, the Jesuits attempted to transplant the tree into the Reductions; their endeavours were successful here and there, but the jealous Spanish colonists used every means to frustrate their endeavours. The other abundant natural resources, choice sorts of wood, aromatic resins, honey bees, and the like, were converted to useful purposes, and attempts were even made, on a small scale, to produce pig-iron.²⁴

Echoing the views expressed in the *Catholic Encyclopedia*, Caraman concludes that "There would be no chance of holding the Indians unless the towns were self-supporting: they would be compelled again to search for food in the forest and plains; before long they would again become semi-nomads."²⁵ Yerba had an additional benefit as an alternative to chicha, which was an alcoholic beverage that reinforced the cycle of gluttony and indolence the Jesuits were determined to break. Caraman goes so far to claim that, "If alcoholism had not been the plague of all South American Indians it is unlikely that the Jesuits would ever have developed their yerba trade."²⁶ Chicha was also part of Guarani religious ritual: "At their war conferences the caciques would begin their discussions only after they were drunk." The yerba crop not only helped rid the Reductions of drunkenness, it "paid for all of their imports"²⁷ and became "the basis of their economic viability."²⁸

By 1628 the Jesuits had created a market economy among the Guarani, who were by then travelling regularly from the Reductions of the Alto Parana to Santa Fe, "where they sold their products," most likely yerba, "using the Jesuits of the College in that city as their agents."²⁹ The success of their agricultural program allowed the Jesuits to create Guarani industries, which included:

carpenters, joiners, wood-turners, builders; others blacksmiths, goldsmiths, armourers, bellfounders, masons, sculptors, stone-cutters, tilemakers, house-painters, gilders, shoemakers, tailors, bookbinders, weavers, dyers, bakers,

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butchers, tanners, instrument-makers, organ-builders, copyists, calligraphers etc. Others again were employed in the powder-mills, tea-mills, corn-mills etc. Each man remained true to the craft once adopted, and provided for the transmission of his trade by teaching it to apprentices. The wonderful quality of the products of the workshops in the Reductions is shown by the beautiful cut-stone work of the churches. In some of the Reductions there were printing establishments, as for instance in Corpus, San Miguel, San Xavier, Loreto, Santa Maria la Mayor, where principally books of a liturgical and an ascetic nature were printed. It should be noted particularly that the remarkably high industrial development was not reached until after the end of the seventeenth century, when Jesuits from Germany and the Netherlands came to Paraguay in larger numbers. In 1726 a Spanish procurator of the missions admitted that "*Artes plerasque [missionarii] erexerunt, sed eas omnes Germanis debent.*" Arts and the crafts were completely neglected in the Spanish colony at that time, the houses in Buenos Aires being built of clay and covered with rushes. A German lay brother of the Society of Jesus, Joh. Kraus, erected the first larger brick buildings (college and novitiate in Buenos Aires and Córdoba; Brother Joseph Klausner of Munich introduced the first tin-foundry in the Province of Tucuman; while Indians from the Reductions, under the direction of the missionaries, built the fortifications and ramparts of Buenos Aires, Tobati, San Gabriel, Arecutagui, and other public works.³⁰

Basing their manufactures on the "vast agricultural programme that was needed for stable life," the Jesuits created a "social revolution," that brought prosperity to the Guarani. "Between 1731 and 1766 the ten townships grew from 14,925 to 23,788."³¹

The economies which the Jesuits created depended in their particulars on the peculiarities of the different ethnic groups. The Guarani had a natural aptitude for music, and so the German Jesuits taught them not only how to play musical instruments but how to manufacture them as well.³² The Mocobies had no aptitude for agriculture, and so instead of teaching them an occupation to which they were temperamentally unsuited, the Jesuits

instructed them in trades. Soon there were forges, tanneries, mills, carpenter shops, and brickyards. The women turned to weaving and dyeing. Within three months he had bartered 73 fine blankets produced by the Mocobies for 48 hundred weight of tea and 15 hundred weight of sugar and tobacco.³³

The Jesuits taught the Chiquitos how to smelt iron, and the metal fish hooks they made revolutionized their ability to catch fish.³⁴ Before long they were making clocks and rosaries and spinning wheels, which allowed their woman to produce cloth. The Jesuits then helped develop a wax industry, which financed the purchase of iron ore.³⁵ The iron implements which the Chiquitos produced were much sought after by other Indian tribes, who would travel as much as 600 miles to buy them. This ability to provide value to the neighboring tribes lessened the incessant tribal warfare that contributed significantly to the misery of hunter-gatherer life. It also reduced the incidence of cannibalism and gave the Chiquitos a hitherto

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unknown sense of security.³⁶ By teaching the Chiquitos how to work in systematic fashion and creating an economy which allowed them to dispose of the fruits of their now systematic labors, the Jesuits changed the Chiquitos from "a wild group of tribes. . . into a nation."³⁷ The Jesuits' success:

was due in large measure to the respect with which they treated the culture they found in the forests. They did not enter the province like men extending an embrace to an inferior race. . . . Their method was to retain and redirect as far as they could their primitive customs and reorientate their equally primitive impulses. The Christian culture the established has remained to this day although the economic prosperity of the province has long passed.³⁸

The Jesuits did not come to Guaira to appropriate the labor of the natives. In this regard they differed from the European colonists who saw the New World as a source of wealth, either to be stolen directly from the natives, or to be attained by the theft of the natives' labor. In response to the immense challenge which the virgin continent offered to human labor, England, Portugal, and Spain established systems of indentured servitude to appropriate all surplus value from the native populations:

In the French colonies, the pioneers were the fur traders, principally the beaver hunters, and missionaries; in the English colonies the backwoodsmen hewed down the forest and drove the Indians further west; the Portuguese worked through the Mamelucos; the Spaniards used their missionaries.³⁹

The Jesuits were the exception to this rule. They created an economic system in the Reductions which allowed the Gurani to retain the produce of their labor. In spite of the calumnies later spread against them, the Jesuits, faithful to their vow of poverty, owned no property, and as a result they appropriated none of the wealth they created. On January 31, 1696, Tirso Gonzalez wrote a letter to his superior "reiterating firmly that everything, pensions apart, belonged in one way or another to the Indians."⁴⁰ Because the Jesuits could own no property, there was no reason for them to appropriate the Indians' labor. That meant that: "Every Indian was to receive a fair share for any work he might do for the Fathers; if he sent timber belonging to the community down river . . . he was to be recompensed for both the timber and for the labor of felling it."⁴¹

Both the hunter-gatherer culture which the Jesuits found when they made contact with the Guarani and the Spanish *encomienda* system of indentured servitude which got imposed on them immediately after the arrival of European culture were antithetical to the spread of the Gospel. The former system was innocent of any real understanding of work; the latter system overemphasized work while denying it its proper reward. Both created obstacles in the mind of the Indians which prevented the development of a rational understanding of human labor and how it fit into the divine plan of things.

In founding their settlements, the Jesuits proposed an alternative to the Mercantilist system of exploiting the colonies for the benefit of the mercantile class in the mother country. In founding the Reductions in Paraguay, the Jesuits provided an alternative economy which would eliminate the obstacles to conversion which the *encomienda* system had erected through the bad example of the colonists. In place of force, the Jesuits proposed liberty and emancipation from the *servitium personale* which had created so much aversion to the religion of the oppressors.

Their efforts, not surprisingly, provoked a violent reaction from a culture which was built on slave labor, and it led to repeated expulsions of the Jesuits often at the hands of fellow priests who accepted the moral liceity of the *encomienda* system. In spite of this opposition on the local level, the Jesuits found support in high places both in the state and the church. King Philip III of Spain:

very energetically espoused the cause of the oppressed Indians, and who not only sanctioned the plans of the Jesuits, but furthered them very effectively by a number of royal decrees and appropriations from the public treasury and placed them on a firm legal basis.⁴²

The main instrument the king put at the disposal of the Jesuits was the *Cedula Real* (Royal Ordinance) of 18 December, 1606, reinforced by the *Cedula Real* of 30 January, 1607, which specified that "the Indians who were converted and became Christian could not be made serfs, and should be exempt from taxation for a period of ten years." Two years later, the so-called *Cedula magna* of 6 March, 1609, declared that "the Indian should be as free as the Spaniards." Armed with these royal decrees, the Jesuits were able to provide a viable economic alternative to the *encomienda* system in the Reductions, which began to prosper almost immediately because the Indians were able to retain the fruits of their own labor: "The Indians hastened in entire bands to these places of refuge, where they found protection and safety from the robbers who harassed them." In creating the Reductions in Paraguay, the Jesuits were only following the teaching of the Catholic Church, which rejected the notion that the Indians were sub-human and destined for slavery. As early as June 12, 1537, Pope Paul III issued his letter *Veritas Ipsa*, which

declared emphatically that the Indian was a true human being called to salvation and entitled, even as a heathen, to complete freedom: he could not lawfully and ought not in fact be made a slave. In 1567, 30 years later, in a letter to the Viceroy of Mexico Pius V went further: he asserted that the Indians had a right to civic honours and offices.⁴³

Unlike Capitalism, Catholicism had always maintained that economic exchange fell under the purview of the moral law. However, papal bulls meant little in the lawless New World until the Jesuits created the institu-

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tions which could implement the Church's teaching and survive economically in a hostile world. The fact that they did both testifies to their tenacity and genius. At the very moment when Europe under England's intellectual lead was about to subject the world to an economic system based on the systematic theft of labor, the Jesuits came up with a Catholic alternative to Capitalism not only in theory but in practice. If the Paraguay Reductions had been allowed to survive, the Jesuits might have written their own version of *The Wealth of Nations* before Adam Smith wrote his. As it was, the world had to wait another century and a half before the Jesuits, in the person of Heinrich Pesch, drew the full theoretical implications of their labors in the New World.

The Jesuits created wealth in their reductions, but they did not introduce money as a medium of exchange. Without money, the sale of land was impossible. It was also unnecessary since every Guarani male in the Jesuit towns at his marriage received from the community what he needed for the support of his dependants. On his death, the widow and his children were cared for by the community. He was free to acquire more land, but more land meant more work.

In the absence of money, which functions as a store of value, there was no way for the individual to accumulate wealth beyond what was necessary to maintain his family. Wealth, as a result, became a function of the community and manifested itself in the opulence of public infrastructure in the Reductions, which soon exceeded the Spanish towns in their opulence and prosperity. The Czech Jesuit Martin Dobrizhoffer, whose *History of the Abipones* would be translated into English by Sara Coleridge and inspire Southey's epic poem the "Tale of Paraguay," claimed that Asuncion, the capital of Paraguay, was

a dingy place compared with Candelaria, the Guarani capital: no fine buildings, no houses above one storey high, untidy streets obstructed by ditches, a single, grass-covered market, no proper seat for the bishop or governor; and the people spoke neither correct Spanish nor correct Guarani, but a kind of third dialect.⁴⁴

Since the Reductions had no currency of their own, food and clothing were distributed directly:

Food and dress were the same for all, with some slight concessions in favour of the caciques and public officials. The produce of the private fields provided the secondary dishes for the daily table. Whatever was missing was provided out of the common storehouse in equal measure. The principal article of diet of the Indians was meat, which they obtained from the common slaughterhouses at regular intervals. Ordinarily, animals were slaughtered three times a week; in Yapeyu, with about 7000 inhabitants, about forty beeves were killed each day. In order to prevent the Indians from consuming their entire rations of meat in one day, they were induced to make *charqui* (meat dried in the sun and pulverized) of a portion of it. The sick were given special food prepared in the parsonage; the

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children received their morning and evening meal in common in the courtyard of the parsonage also. On high feast-days public banquets were held in common. The common storehouses also furnished additional provisions of a special nature for wedding feasts and the like. Strong liquors were almost entirely replaced by maté in the Guaraní Reductions.⁴⁵

As a result of the absence of money and the direct distribution of food and clothing, the Guaraní Reductions appeared communist to moderns, especially writers in the 19th century, who were looking for alternatives to the rapacious capitalist exploitation of labor. Even the *Catholic Encyclopedia* claims that the economic system which the Jesuits created in the Guaraní reductions "was a sort of communism, which, however differed materially from the modern system which bears the same name, and was essentially theocratic."

Caraman claims that, "It was common for 19th century authors to see in the Jesuit experiment in Paraguay the ideal of a Christian communist community in which everything was held in joint ownership for the equal benefit of all."⁴⁷ He feels, however, that the opposite was the case because the Jesuits could only make their settlements work if they impressed upon the Guaraní some sense of private ownership, and they could only do that if they got them to value property, and they could only do that if it were clear that some reward came from working that property. All of this was different both from Communism and from the primitive state in which the Jesuits found the Guaraní when they arrived in their territory in 1610. In that primitive state:

the Guaraní had nothing he could call his own; nor was there any need for it: the forest and rivers provided ample sustenance for all. The Guaraní knew everything that the land spontaneously produced, when it ripened, where it was to be found, where the animals lurked, how each species could most easily be caught. There was no need to claim anything as private. What Dobrizhoffer wrote of the Abipones applied equally to the Guaraní: "All things are in common among them. . . . Whatever flies in the air, swims in the water and grows wild in the woods becomes the property of the first person who chooses to take it."⁴⁸

The Jesuits, in other words, didn't create Communism; they found it in its most primitive version when they arrived in Guairá. They soon concluded that it would be impossible to preach the Gospel to the Guaraní if they remained in that primitive communistic state. The Jesuits needed to teach the Guaraní how to work in some systematic fashion, but the Jesuits could not teach the Guaraní to work if there were no reward for their labor; hence the Jesuits had to create private property as the incentive for work. As Caraman points out:

The economy of a settled life demanded individual possession of land at least in rudimentary form. There is evidence that the first Jesuits in Paraguay attempted

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to impress on the Guarani some sense of private ownership. Pedro Ornate, the second provincial, wrote in 1618 that "in their barbaric state the Indians possessed neither house nor field," and instructed the Fathers of the Parana to see that the Indians acquired both.⁴⁹

Under the system the Jesuits developed in the Reductions in Paraguay, the Guarani could own property, but they could not sell it, nor were their rights to it unlimited:

The yield of his private field was the absolute property of the Indian: he disposed of it as he wished: he could consume it in a few days or over a long period, sell it or give it away. The production of cotton meant some labor which the Indian ordinarily shunned: he did not care whether he went half-naked or well-clothed. If he wished he could make a hammock or net or weave cloth. When he sold the cloth, the commune credited the proceeds of the sale to him individually; in exchange for his products the Indian received the goods he wanted. The only restriction on his ownership was that he could not sell either his field or house. Peremas sums up the position: "With this system all the families were equal and had the same possessions. Some, however, cultivated their land with more diligence than others and so reaped a higher harvest."⁵⁰

Caraman claims that "the Jesuits of Paraguay hit on a co-operative system for the support of a welfare state long before either phrase was coined in Europe,"⁵¹ but this claim is just as anachronistic as the claim that the Reductions were communist or socialist. What the Jesuits introduced in Paraguay was similar to the arrangement that the German tribes reached in the Holy Roman empire after those tribes were exposed to Christianity. The Jesuits, in effect, resurrected the feudal system:

In his account of the foundation of San Juan in 1696, Antonio Sepp describes how on reaching the site of the Reduction he allotted a portion of land to each cacique, who in turn divided it among his vassals. When this had been done Sepp then preached a sermon on the right of the Indians to own their own land and their duty to respect the same right in others. The allotment was sufficient for a married man to support his family on a crop of mandioca, a sturdy plant easily propagated by dividing the stock: the root could be eaten six months after planting though it required a year to ripen properly. It was an ideal crop for the Indian: it needed no attention, the flourished even when the leaves were destroyed—locusts, ants and drought did it no harm.⁵²

But in resurrecting feudalism, the Jesuits had to modify it, and in doing so they created, out of necessity, a new economic system, something which superseded both the communism of the primitive state which the Jesuits discovered when they arrived in Guaira and the nascent individualist capitalism, based on the theft of labor, which the European settlers attempted to impose on the natives.

Because the Jesuits eschewed both primitive communism and nascent capitalism, the situation which the Jesuits confronted had uncanny simi-

larities to the situation which humanity faces at the beginning of the 21st century, when both Capitalism and Communism have failed. Confronted with two mutually repugnant alternatives, the Jesuits arrived at an alternative which was neither individualistic nor socialistic but Catholic in its essence. The name which the Jesuit Heinrich Pesch gave to this Catholic alternative is Solidarism, which Pesch describes as the Aristotelian mean between two extremes.⁵³ On the one hand,

The guiding principle of individualism was the absolute freedom and autonomy of the individual economic unit seeking exclusively its own advantage. To individualistic decentralization, socialism opposed a totally unified, centralized, universal economic community which obliterates all social differentiation between occupational groups, classes, and estates. Between these two extremes of absolute centralization and absolute decentralization, there is a third system which we propose to call solidarism.⁵⁴

Pesch claims at another point that:

The essential meaning of the solidarist system consists in complementing weakness and regulating power by binding people together in solidarity, while exercising mutual consideration and concern in accordance with the demands of justice and charity, by a well-ordered cooperation and reciprocity within the various forms of natural and free, public and private communities, and in accordance with their natural and historical peculiarities, directed toward the ultimate goal of securing the true welfare of everyone involved. In other words, it involves the notion of community without exaggeration and with due regard for the rights of the individual person but at the same time for the social community, and for freedom as well as order, for individual personal as well as social responsibility.⁵⁵

Capitalism was based on a neopagan resurrection of the conflict between love and strife which Newton found in Empedocles, and it was implemented in all of the Newtonian redactions of economic theory as pseudo-physics which began in earnest with Adam Smith. Solidarism, on the other hand, grew out Catholic thought. In particular:

The idea of solidarity of the whole human race finds application in the doctrine of original sin, and, we might add, in the Christian concept of a family of God embracing all mankind, during the Middle Ages. Especially relevant here is the teaching of St. Paul regarding the organic unity of human society. Donoso Cortes claimed that "through solidarity. . . man ceases to be a mere atom in space and a mere minute in time. . . . Through solidarity, humanity is preserved and, up to a certain point, even created; with that expression, which meant nothing in ancient societies, mankind expresses the unity in human nature and the close relationship which binds men together."⁵⁶

Unlike Capitalism which is based on self-love or vice or greed, supposedly controlled by abstract Newtonian-based mechanisms, solidarism is based on the firm foundation of the moral law. This lends stability to the

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economic system it engenders:

The reason it stays the same is because it is part of the eternal law, in other words, the will of God which establishes order in the world, and which manifests itself to the thinking spirit in human reason as the natural law. If, on the other hand, the highest laws of social life do not have their ultimate and most deeply rooted foundation in God, who alone is unchangeable, and if we try to derive them solely from vacillating human thought, exploration and fickle will and from varying human circumstances, then they will simply not provide a solid foundation for any era. Their validity can be called into question at any time—and this can lead to the ruination of people and states.⁵⁷

Under capitalism, "Nothing is durable, nothing lasts, because in the narrow confines of temporal want satisfaction everything leads to jading of the senses and fatigue of the spirit. If we want security, order, and something which is lasting and durable, then we will have to stick by the goals and principles which the Divine moral law holds out for mankind."⁵⁸

Capitalism was doomed to fail because it was based on a worldview that was too truncated to take into account the complexity of being. It was "unitarian," and as such incapable of understanding how:

Human society, with the all-embracing bonds of a life lived in community with others and interdependence, is merely a reflection of that eternal community where the three divine persons dwell in the consummate unity of their infinite being. . . . Among humans there is everywhere the condition of solidarity. . . that mutual permeation of one by all and of all by one, by which all members of society. . . mutually determine their own destiny.⁵⁹ The kind of solidarity which is destined to promote harmony and unity among individuals and groups in the state and in the economy is irreconcilable with any exclusively unitarian conception of the sort advanced by plutocratic individualism, and by every kind of one-sided class and group egotism. It implies not only a bolstering of our strengths and an increase in utilities and opportunities to be exploited, it also demands sacrifice, alignment with and subordination to the purposes of society as a whole.⁶⁰

Because of its radical individualism, Capitalism failed to see that:

The state is a necessary and a natural form of society for man, just as the family is. Therefore subordination to the national purpose is not something which can be done merely if and as one pleases. We are dealing rather with an obligation based on the natural law.⁶¹

If praxis is to be the ultimate judge of theory, then the Jesuits came up with an economic system superior to the one created by its main competitor, nascent Capitalism. The Jesuits created *ab ovo* in Paraguay settlements that were wealthier and more prosperous than the colonial outposts of any of the major European powers. The theoretical basis of the Reductions was superior as well, something that bourgeois Europe would take another 300 years to discover in the expensive school of experience. Confronted with

the rapacious capitalism of the slave-trader on the one hand and the vice and indolence which the primitive communism of the savage state engendered in the Indians on the other, the Jesuits tried to create a spirit of systematic work among the Indian and an economy based on Christian principles which would reward that labor without promoting the avarice that characterized the European economic system. According to Caraman, "the Indian . . . was incited not to be idle or indolent. If a man could work he was made to work; if not he was supported from public funds. Visitors were astonished to find that there were no beggars in the Guarani towns."⁶²

This meant assigning private lots to individuals, but the Jesuits created communal fields, or *tupambae*, as well:

because the Indians there were helped by music, partly also because communal ownership in primitive societies always took priority over private possession and was more in harmony with the conscience of the people, but most of all because the work was well organized and done under surveillance.⁶³

Because of the forces arrayed against them—the rapacious nature of the slave trade and the natural indolence of the Indians—the Jesuits could not leave the disposition of the goods of the economy to an "invisible hand," which all too often served the veiled interests of the rich and powerful. They knew that social life in the Reductions had to be made to conform to practical reason. In their attempts to implement that law, "the Jesuits discovered that only a well controlled co-operative system could overcome the problem of agricultural production in a people emerging from barbarism."⁶⁴

The Jesuits Reductions succeeded because they were based on the realism inherent to the moral law and not on utopian schemes or the maximization of individual profit by whatever means. The principles of the moral law led the Jesuits to the conclusion that the right to private property, although valid, was not and could not be absolute. The Lockean or Roman notion of private property as something that could be bought or sold at will, or mortgaged, or used as an object of speculation is not what the Jesuits had in mind. This notion of property would have conflicted both with Guarani custom, "which made the means of subsistence common to all," and with the Spanish Law of the Indies, "which treated the natives as minors, forbade them to dispose of real estate without the authorization of the local Spanish governor or of their guardians."⁶⁵

Pesch's mentor Adolf Wagner listed the lessons Europe learned from individualist economics and the efforts that the German economists attempted to make in correcting that system. Virtually all of them revolve around the woes which the Lockean notion of unfettered private property rights unleashed on the world, and virtually all of them would have been avoided if Europe in general and France in particular had followed

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the model which the Jesuits created in the New World and not the system which English Whig Freemasonry promoted through Voltaire and its agents in France.

The chaos which capitalism unleashed on Europe over the course of three centuries convinced even the most ardent devotee of the Enlightenment that "limiting and subordinating the individual, his freedom and his property in favor of the purposes and interests of the community, the nation and the national economy, as well as of smaller communities of which the individual with his property are parts"⁶⁶ was not a bad idea. "Our era" Wagner continues referring to the late 19th and early 20th centuries in Germany:

has already seen significant restrictions placed on personal freedom, on the issue of private property, on freedom of contract, as for example by laws safeguarding workers, liability laws, invalidation of contractual stipulations which waived liability . . . the new social insurance laws for workers.⁶⁷

All of these measures constituted "a new direction is in the wind" which "if it is cared for in a reasonable manner with constant reference to concrete circumstances . . . is fully justified."⁶⁸

Like syphilis, which passed from the New World to the old just as Capitalism was heading in the opposite direction, both maladies were more virulent in their nascent forms. The Jesuits were confronted with Capitalism in its virulent nascent form and understood it as something anti-Christian and unfit as the basis of the Christian communities they were creating for the Indians. Their rejection of Capitalism paralleled the rejection which the Jesuit Pesch expressed 300 years later. The similarities between the economic system that Jesuits like Martin Dobrizhoffer were proposing in Paraguay in the 17th century and Jesuits like Heinrich Pesch were proposing in the 20th are neither anachronistic or coincidental. The economic systems are similar because they both derive from the same basic Catholic moral principles. Because these economic systems are based on eternal principles in the moral law, they "find their realization not only in some particular form of society, but they are valid in all forms of society and find appropriate application in any society which remains in harmony with reason."⁶⁹

The Guarani had an advantage over the English colonizers because they understood that "The rights of the community stand above the interests of the individual," and that "The area of private economic interests must defer to the collective interest and common objectives of the national economy as required by the demands of social justice."⁷⁰ It is not anachronistic to say that the Guarani in the Jesuit Reductions were natural solidarists because solidarism, unlike Capitalism and the socialist reaction it spawned, derived from eternal principles of practical reason which are universally valid.

Because it was based on the bedrock of moral law, the Solidarist eco-

nomic system which the Jesuits created in Paraguay was superior to what Capitalism created in England. There were no beggars in Candelaria, but by the end of the 19th century, the shortcomings of Capitalism were evident to everyone, including Englishmen like John Ruskin, who lamented:

Although England is deafened by the noise of its spinning wheels, its people have no clothing to wear; and although it is blacked by the coal it mines from the earth, its people die of the cold; and although it has sold its soul for profit, its people are starving.⁷¹

"Remarkable irony!" Pesch adds by way of comment. "It was from the country where Smith's industrial system operated freely and completely that socialism was first able to derive its exploitation and immiserization theories, its theory about a natural progression deterioration of the condition of the workers."⁷²

Think for a moment of the likelihood of success for the project the Jesuits embarked upon. Think of the difficulties involved in learning the languages of the native peoples. The Scotch Presbyterians in their attempt to convert the Mik'maq on Nova Scotia (who were already practicing Catholics) couldn't even get this far, but for the Jesuits, this was just the beginning. After learning impossibly difficult foreign languages like Guarani and writing the grammars and dictionaries that have preserved those languages to this day (95 percent of the inhabitants of present-day Paraguay speak Guarani), the Jesuits then persuaded the Indians to move into settlements, and then turned those settlements into economic engines which were more successful than a competing system based on free (which is to say, enslaved) labor.

Unlike Capitalism which was pagan to its core and doomed to fail because of that fact, the Solidarist economic system which the Jesuits created in Paraguay succeeded because it was Christian, which meant that it was based on:

The universal solidarity of the entire human race, which enables us to see in our fellow man a natural companion and, in fact, a brother because of the common relationship which we all share toward God and to Christ, so that it assures him just and charitable treatment. This universal solidarity deserves application in all situations where man approaches man in the family, in the state, and in economic life, as well as in international relations and all contacts between individuals and among nations.⁷³

That principle allowed them to create a viable economic community among a group of savage strangers, who had never had contact with European culture until they encountered the worst aspects of it which got projected onto the New World as Capitalism. The Jesuit Reductions succeeded because the Solidarist economic system that sustained them conformed to human nature in a way that nascent Capitalism and primitive Commu-

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nism did not. The Reductions did not create a situation in which:

individuals [are] virtually all that there is, whereas the whole amounts to nothing; or conversely, the whole as being virtually everything while the individual is reduced to nothing. Individuals accomplish their goals in the community and, to a degree, with the help of the community—always however with concomitant responsibility to the goal of the community (general welfare).⁷⁴

The "solidaristic bond"⁷⁵ which the Jesuits forged among the Guarani was the antithesis of both individualism and socialism and, as such, the antithesis of Capitalism because solidarism was based on a system which allowed the Gurani to retain the surplus value which their own labor created. The prosperity which flowed from allowing the worker the major share in the surplus value which he created spoke for itself, but the results only provoked envy and hatred in those committed to the *encomienda* system, and as a result the slave trade continued unabated, and as long as that trade was profitable, the Mamelocos would continue their raids.

In 1629, one year after the Jesuits helped the Guarani establish the yerba trade with Santa Fe, the Mamelucos staged their first raid on the Guarani reductions. The Jesuit towns were attractive because they gave the Mamelucos "the chance of seizing large numbers of Indians in a single haul, and Indians already disciplined, attached to the soil and at least in the first encounters, unarmed."⁷⁶ They were also attractive because the Reduction Indians were relatively defenseless:

their clubs and arrows, had no chance against the Mameluccos with their horses, guns, bloodhounds, and enlisted bands of savage Tupi allies. Despair overcame them: many who escaped capture fled into the forest, others turned on the Jesuits, to whom they attributed their suffering, and on occasion threatened them with death.⁷⁷

When the Mamelucos staged their first raids on the Reductions, all that Jesuits like Father Maceta could do was console the Indians as they were dragged off into captivity. Over the course of the next 130 years, the Mamelucos captured, according to one estimate, two million slaves. Sallying forth from the impregnable fortress they had created at Sao Paolo, the Mamelucos defied state authority with impunity. The colonial Governor, according to Caraman, "abandoned not only the desire but all hope of subduing the stronghold."⁷⁸ Neither papal bulls prohibiting slavery among the Indians nor the Law of the Indies could be enforced in a colonial empire where "there was now hardly a planter in Brazil who had not a stake in the human loot."⁷⁹

The only hope of saving the missions and with them the whole province of Guaira was defense of the reductions by military force. Since the colonial armies represented the planters, the Guarani had to create their own defense force. To accomplish this, the Jesuits sent a delegation under

Father Montoya to Spain to beg King Philip IV for the concessions they needed to keep the reductions alive. That meant 1) "complete exemption" from *ecominda*, the Spanish system of indentured servitude for all Indians in the Jesuit Reductions; 2) freedom from "taxation of every kind for the first 20 years after coming in from the forest;" and, most important, 3) the right to bear fire arms in self-defense.⁸⁰ Montoya succeeded on every count. "Royal letters dated May 1640 authorized the Viceroy in Lima to allow" the Guarani to arm themselves with modern firearms, "this if he judged it necessary."⁸¹ He did, and the Guarani were so armed. According to the *Catholic Encyclopedia*:

The organization for armed self-defense against the frequent inroads of hordes of savages and of the Portuguese neighbours was not only permitted by repeated royal decrees, but was carried out in accordance with the declared wishes of the king. In conformity with these decrees arsenals were erected in all the Reductions, in which weapons of the best quality, principally firearms, were stored, together with ammunition. The king repeatedly sent new supplies of arms, among them some 800 guns, about 1730. Later gunpowder was produced in the Reductions themselves. Each Reduction was divided into eight companies, with a *maestro de cumpo*, generally a cacique, a *sergente mayor*, eight *capitanes*, and other officers at their head. Regularly arranged military exercises and armed drills, together with sham battles, preserved and increased the military efficiency of the people. The governors repeatedly sent Spanish officers into the Reductions, to instruct the Indians in the use of firearms. The main strength of the Reductions, however, lay in their cavalry. This force had already proved itself very efficient in the defence against the Paulistas; from 1641 onwards it was called into service by the governors almost year after year to help in the wars with the savage tribes, with the Portuguese, the English who threatened Buenos Aires and, last but not least, rebellious colonists and *encomienda* Indians, and rendered splendid service. Time and again kings and governors expressed their sincerest gratitude for these services, which were all the more valuable because they cost the Crown nothing. The Reduction Indians between 1637 and 1735 entered the field no less than fifty times for the cause of the king, repeatedly with a large force and under considerable sacrifice of time and life.⁸²

Turning the natives into a fighting force which could contest a modern European army was no small task. The Guarani soldiers lacked both the experience and the ferocity of the Mamelucos. Whenever the battle would go against the Mamelucos, they regrouped by retreating behind their palisades. The Guarani, however, when pressed, would scatter into the forest where they were picked off one by one. When the Mamelucos were trapped, they asked to parley and used the Guarani's newly adopted Christianity against them by using the liberty they obtained by surrender to regroup and attack the Guarani again.

The crisis came in early 1641 when spies reported that "two Mameluco leaders, Pedroso de Barros and Manuel Pires, were building a fleet of barg-

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es to surprise the reduction by an assault from the river, outflanking its land defenses."⁸³ The moment of truth had finally arrived. At this point the Jesuits had to arm the Indians or abandon the Reductions, which were now the only line of defense between Asuncion and the mines of Charcas and complete Mameluco hegemony over the area.

On March 8, the Mamelucos, surprised by the tenacity of the Guarani defense, retreated. Three days later they returned to find the Guarani even better armed than during the first encounter. Under the command of the cacique Abiaru, the Gurani launched 70 boats, 50 of which were manned by harquebusiers.⁸⁴ Having thwarted the advance of the Mameluco fleet, the Guarani launched a land attack which inflicted heavy losses on the Mamelucos, who tried—this time in vain—to distract the Guarani with an offer to parley. When the Guarani refused their offer, the Mamelucos broke and ran only to be picked off by their pursuers, who "tore off their beards and hair and the flesh from their arms and thighs before eating them; they then mangled their bodies and fixed their heads to poles on the roof of their huts to frighten off others."⁸⁵ Probably 120 Mamelucos died along with nearly all their Tupi allies.

After the Mamelucos were defeated at the battle of Mborore in 1641, the Indians returned to the Reductions with confidence in their new way of life restored. The Mamelucos attacked again but they were easily defeated. By the time the Mamelucos made their last attack, "Each Reduction soon had its own armory; some manufactured their own gunpowder and small arms."⁸⁶

After the Mamelucos were defeated, the attacks on the Reductions did not stop, but now they came from within the Church. Bishop Bernardino de Cardenas accused the Jesuits of enslaving the Indians and using them to mine gold for them. Bishop Cardenas was pandering to the landowning interests, who used the Franciscan *encomienda* system as a source of cheap labor. In 1644, Cardenas gave a sermon which ended with the claim that

Only when the Jesuits were out of the country would the king enjoy his rights. Then there would be a plentiful supply of Indians for the encomenderos; every section of the community would have its share of Jesuit riches; the country would be saved. Just as the Venetians had expelled the Jesuits from their territory and the Portuguese from Sao Paulo, he would drive them from Paraguay.⁸⁷

This sermon led to the expulsion of the Jesuits from their Reductions in March 1649. The expulsion was temporary but no less unjust because of that fact, nor less ominous of future expulsions, when Cardenas's slanders got revived a century later. In a scene that was as ominous as it was unjust:

the Jesuits were ordered to leave Asuncion and at the same time hand over their Reduction within the jurisdiction of Paraguay. With their hands tied, they were taken from the college a few hundred yards across the plaza to the port, where

they were put into canoes and sent down river.⁸⁸

The *Catholic Encyclopedia* claims that the "accusation that the Jesuits acquired immense wealth in the Reductions is a fable, spread broadcast by their enemies and those jealous of their success, but long since disproved."⁸⁹ Even though they were shown to be false, Cardenas's slanders "brought confusion upon the entire country" and "threatened to ruin the Reductions."⁹⁰ Caraman concurs, claiming that "the revival of Cardenas's charges was in considerable part responsible for the ruin of their [the Jesuits'] work."⁹¹

The slanders would bear their deadly fruit long after Cardenas launched them when, during the 1740s, the anti-Jesuit party under the leadership of the Marques de Pombal and the Duc de Choiseul revived the slanders with the help of their propagandist Voltaire and brought about not only the expulsion of the Jesuits from Paraguay but the complete suppression of the order.

The attack on the Jesuits was a prelude to an attack on the Church itself, launched by ministers who represented Catholic countries like Portugal and France, but whose ultimate allegiance was to the Grand Lodge in London. Pope Clement XII died on February 6, 1740. Six months later after a contentious conclave Prospero Lorenzo Lambertini was chosen as his successor, choosing the name Benedict XIV. Lambertini was an accomplished diplomat and man of letters who seems to have won the cardinals in the conclave over to his side by a combination of both of those traits along with a certain amount of self-deprecating charm, when he announced, "If you wish to elect a saint, choose Gotti; a statesman, Aldobrandini; and honest man, elect me." As pope, we are told, "Lambertini was no less energetic, brave and unassuming than before his election." He instituted many reforms in both agriculture and the administration of the papal states.

In the battle for the mind of Catholic Europe, however, Lambertini was a general without troops in an intellectual battle in which his own forces had gone over to the side of the enemy. "The pope orders," he claimed giving his take on the issue of authority in an age headed recklessly in the direction of revolution, "the cardinals do not obey, and the people do as they please."

In 1745 Benedict issued *Vix pervenit*, in which he reiterated the traditional teaching of the Church on usury. No pope has issued anything this magisterial on that topic since, which means his condemnation of all interest on loans as sinful still stands as Catholic doctrine, but in this area the pope had been a general without troops ever since the late Scholastics had apostacized on the issue and approved the triple contract.

The same was true of his stand on Freemasonry. On March 18, 1751 Benedict renewed the condemnations which Clement XII had issued

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against Freemasonry some 20 years after the Church had first become aware of the gravity of this issue. The pope most certainly found consolation in the fact that Spain, Naples, and Milan passed laws outlawing the lodge in their territories, but, as in his condemnation of usury, the pope found himself cut off from the very people whose support he needed to implement his decrees.

Since he himself was a Mason, it was unlikely that the Duc de Choiseul, France's prime minister, was going to take measures against the very people whose interests he had secretly sworn to advance. How was the pope supposed to deal with an enemy like Voltaire, who dedicated his work *Mahomet* to the pope with the words, "*Au chef de la véritable religion un écrit contre le fondateur d'une religion fausse et barbare*"? The same question was *a fortiori* applicable to the equally duplicitous Choiseul, whose hectoring importunities at one point grew so intolerable that Lambertini grabbed him by the arm and thrust him bodily into the chair of Peter saying "Be pope yourself." To which Choiseul replied, "No, Holy Father, let us each do his part. You continue to be pope, and I shall be ambassador."⁹² Just whom Choiseul represented would become clearer with time.

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Chapter Fifty-Three

Adam Smith Goes to Glasgow

In 1737 Adam Smith left Kirkaldy on the northern shore of the Firth of Forth, where he had been born (or baptized) on June 5, 1723, and headed west to attend the University of Glasgow. Smith was born in the same year that James Anderson published the *Constitutions of Freemasonry*, and Voltaire published *La Hendriade*. In 1723 Smith's countryman John Law was waiting for the call to return to Paris that never came. Newton, Smith's model for scientific system-making, would die in 1723, and Immanuel Kant, the man who undid the work of Smith's friend David Hume, would be born one year later.

Smith had been born small, sickly and fatherless, into a Presbyterian family which prided itself on having "kicked out the Pope and the Pretender [to] preserve the pretious right of private judgment."¹ The father Smith never knew was not only a Presbyterian, he was also "able to lend out money at interest,"² and so was a usurer of the sort who lent money to Rob Roy, which is to say, a practitioner of the art of usury when it was on its way from being considered a vice that was tolerated, as Cobbett put it, "like incest among dogs," to being a virtue.

Ross tells us that Smith's inheritance "instilled in him the values of a frugal style of life, self-discipline of a Stoic cast, diligence in his calling, and strict justice toward others, tempered with benevolence which characterized his actions and his teaching."³ The fact that usury was no longer considered an offense against justice indicates that Presbyterianism was changing from the religion which imposed "strict controls" to the ethos which extolled "natural liberty" and condoned financial exploitation. Adam Smith was born into the conjunction of those two different worlds.

Smith began his studies at Glasgow University on November 14, at the age of 14, which at the time was not considered unusually young to matriculate at a university. Smith had studied Latin and Greek in Kirkaldy and had learned his lessons so well that he got to skip the first two years of the normal curriculum. Smith would refer to his Glasgow years as "by far the most useful and, therefore, as by far the happiest and most honourable period of my life."⁴ He arrived in Glasgow when there was a remarkable unity of purpose among the Presbyterian Lowland Scots. Glasgow had long been a bastion of Protestantism in Scotland. There was no uprising there when the usurper William of Orange took the throne in 1688 because the "sea adventurers" who were "the driving force behind the city's remarkable

economic expansion in the 17th and early 18th centuries,⁵ were firmly committed to the economic exploitation of the colonies which the Protestants had opened in both America and Ulster:

The plantation of Ulster led to its colonization by Presbyterians from the west of Scotland, thus making Glasgow and its university the focal point of the new province's commercial and academic life. . . . During the century after the restoration of 1660, Glasgow's economy took its decisive leap forward, expanding faster than any other Scottish burgh. Glaswegians began trading with the Canaries, the Azores and Madiera, with the English colonies in the Caribbean and with their plantations in the Carolinas, Virginia, New Jersey, New York and Massachusetts.⁶

Glasgow imported sugar and timber from America and exported hardware and textiles to the continent, but tobacco made Glasgow wealthy: "By 1751, when Smith returned to Glasgow as a professor, the Glasgow tobacco lords were importing more tobacco than London and all the English outports combined."⁷ When Smith arrived in Glasgow in 1737, he witnessed:

a remarkable place at a remarkable stage of its development. Its expansion was being engineered by the skill and enterprise of a closely knit merchant oligarchy that knew how to exploit the possibilities and limitations of the old, medieval burgh system, the hazards of the Navigation Acts, and the opportunities created by the expansion of the Atlantic trade in an age of war and empire. It was a monument to the spirit of enterprise that flourished in spite of, or even because of the mass of protectionist regulations that controlled the workings of the local economy.⁸

The prosperity which flowed into Glasgow as a result of the Act of Union had confirmed the Whig merchant class which ran Glasgow in their belief that they had made the right decision by supporting the Protestant cause. Smith arrived in Glasgow at a turning point in the development of the British Empire. The Protestant cause, which since the Glorious Revolution became the *raison d'être* of the British Empire, had become a religious pretext for a commercial enterprise composed of Protestantism, limited government, free trade, and the English language. What gave that *Gestalt* coherence was Capitalism. England was above all else a commercial power, and during the course of its 120-year long war with France, the premier Catholic power on the continent, it was learning that money trumped every other power on earth, including military might and population, both of which needed finance to mobilize them properly. In 1739 Great Britain fought a war with Spain in the Caribbean and:

Thereafter, . . . an ever-larger segment of the politically active public in England, Wales and Scotland took pride in the empire and defined the distinctiveness of the British nation by stressing the reach of its commercial and political power overseas. The anthem "Rule Britannia" was written in the heady early months of the war with Spain.⁹

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The Whigs of Glasgow identified with the empire which had made them wealthy: "Over the ensuing decades the English language spread across the whole of Scotland, commerce increased, and the Highlands were integrated more fully into the cosmopolitan, British imperial world."¹⁰ Their newfound prosperity gave the Whigs of Glasgow unity of purpose, which then prompted the Whig oligarchs to seek an intellectual explanation (or justification) for their newfound happiness from the philosophers they had appointed to teach their children. As a result, Glasgow University

became the intellectual powerhouse of a highly successful attempt by moderate Presbyterian professors to develop an alternative Presbyterian academic culture, which would be more in tune with the demands of a Whig regime and the polite manners demanded by a commercial age.¹¹

By the time Smith arrived at Glasgow University, the Whig oligarchs had decided that they needed a culture and a religion which were consonant with their newly successful commercial way of life. That cultural project came to be known as the Scottish Enlightenment. One of its leading lights was Francis Hutcheson, who "was elected Gershom Carmichael's successor as Professor of Moral Philosophy in 1729." Hutcheson held that post "until his death in Dublin in 1746 at the early age of 52."¹²

In his inaugural address on the social nature of man, Hutcheson attacked Pufendorf and Hobbes for their denigration of human nature, a nature that was so permeated by depravity that it needed to be restrained by civil authority. Hobbes was reacting to the collapse of legitimacy which ensued in the wake of the Reformation, a collapse which still haunted Scotland, as the ongoing Jacobite risings made clear. Hutcheson, writing 100 years after Hobbes, was responding to the optimism flowing through Glasgow as a result of their acceptance of the essentially non-violent Glorious Revolution and the increase of commerce which flowed from Whig hegemony, which in turn flowed from the beneficent effects which the Bank of England exerted on state finance. These events begat the hope that the Scots might come up with a new more positive *modus vivendi* which would succeed the essentially negative solution achieved by the Peace of Westphalia of 1648, which had been able "to secure the minimal level of sociability needed to ensure a state's survival and no more."¹³

Newtonian physics was another innovation which had taken place since Hobbes had penned his pessimistic assessment of politics and its relationship to human nature. Newtonian physics was also another reason for optimism among Scottish Whigs because it obviated the need for an absolute ruler who interfered with the entrepreneur and his expertise in making money. The limited monarch, controlled by financial interests, was modeled on the Deist god which Newton had promoted as the omnipotent, albeit distant, lord of the universe. Arguably, the opposite was the

case, and Newton got his idea of God from the constitutional monarchs of England. Like the Grand Architect of the Universe celebrated by the Newtonian Masonic Lodges, the limited monarch ruled from a distance and only according to strict scientific laws. Since Newton had already discovered those scientific laws in the realm of physics, the task before the professors at Glasgow was clear. They needed to do for morality, economics, and politics—in short, the social sciences—what Newton had done in the natural sciences. Hutcheson needed to create “a new science of morality, which placed the study of human nature and the principles of sociability on empirical foundations.”⁴⁴ If he were successful, then the Whigs from Glasgow could be a shining example to the rest of the world. When Adam Smith arrived at Glasgow, he inherited this intellectual project: “Scots and English philosophers were convinced that their mixed constitution and the limited monarchy brought into existence by the Glorious Revolution and the Revolution Settlement was a better way of fostering sociable behavior than absolute monarchy.”⁴⁵

That same hope suffused Hutcheson’s critique of the philosophy of “virtuous” selfishness, which Bernard de Mandeville proposed in 1711 with the publication of his long poem “The Fable of the Bees.” Hutcheson, who felt that men had benevolent as well as selfish passions, was scandalized by Mandeville’s claim that “vice is beneficial” and determined to prove that individual benevolence could suffuse entire societies and that those “benevolently inclined societies were capable of a high degree of self-regulation and were therefore not in need of the attentions of absolute monarchs.”⁴⁶

Here again, economic motives became philosophically normative. “Self-regulation” was a code word for economic activity unfettered by political restraint, which soon became supplanted by a desire for economic activity unfettered by moral restraint, or any other kind of restraint, including the common good. This trajectory of thought was inevitably and inescapably economic. Whig Political thinking was calculated to support commerce. Similarly, commerce in the Presbyterian mode, i.e., capitalism, provided the form which organized all of the other elements. Religious freedom put limits on the monarch, who could no longer impose his will on “a society whose merchants traded for modest profits and were motivated by a desire to increase the industry and employment of the people at large.”⁴⁷ The point of the new philosophy was to promote the Glaswegian economics, which the Scottish Whigs in all sincerity considered superior to anything which had hitherto appeared in the history of the world.

As Hutcheson’s student at Glasgow, Smith was introduced to the moral philosophy of the ancient and modern world and to the problems involved in placing the study of human behavior on what his contemporaries liked to describe as “experimental” foundations. Hutcheson was intimately en-

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gaged in extricating Scottish philosophy from the contradictions imposed by Calvinism, which was “old light” by the time Smith arrived.¹⁸ The “new light” which Hutcheson proposed was based on a rehabilitation of reason, which “old light” Calvinism disparaged as blinded by the innate depravity which flowed from the fall of Adam.

That attempt to rehabilitate reason, noble as it was in principle, was to prove more difficult in practice, precisely because of the Reformation. By the time Smith arrived at Glasgow University, the Reformation had dominated intellectual life in the English-speaking world for over two centuries. It had become part of the intellectual furniture of generations of Englishmen, who saw it, as Smith did, as the bedrock of their ethnic identity. Rehabilitating reason while retaining Protestant categories and principles was more difficult than the Scottish savants imagined. For in discarding popery, the Anglophone world had discarded Scholasticism as well, and with Scholasticism went Aristotle, and with Aristotle went Plato and Socrates and the whole tradition of Logos which provided the intellectual foundation of western thought. Proficiency in Latin and Greek, as the career of Friedrich Nietzsche would show, was no substitute for docility to Logos. The sophists spoke Greek, but to say that they represented the tradition of Logos was to do violence to the memory of Plato and Aristotle, and thinkers like Socrates, who was willing to die opposing their errors.

Crippled by Calvinism’s anti-intellectual heritage and their own disdain of popery, the Scottish savants were unable to understand fully, much less resolve, the conflict between Socrates and the sophists which Plato had articulated. As a result of their alienation from the mainstream of western philosophical thought, the Scottish Enlightenment took as its heuristic model Daniel Defoe’s hero Robinson Crusoe, the paradigm of all Whig thinkers, and set out to invent what they should have striven to discover in the thought of the defenders of Logos who went before them. The project which the Scottish Enlightenment inherited from John Locke came to be known as empiricism, a Robinson Crusoe ideology which eschewed all of human learning and sought instead to derive all knowledge from disparate atoms of sense data. From these simple ideas, or perceptions, all of the greatest philosophical systems could be and in fact were derived. If a great idea like, say, the hypostatic union, could not be derived from little idea atoms like “blue” and “hard,” then it was nothing at all and could be dismissed as nothing more than a mere humbug and chimera by the flinty-eyed Glaswegian capitalists who were paying the Empiricists’ salaries. Or, as David Hume put it: “When we entertain, therefore, any suspicion that a philosophical term is employed without any meaning or idea (as is but too frequent) we need but to inquire from what impression is that supposed idea derived? And if it be impossible to assign any, this will serve to con-

firm our suspicion.”¹⁹ At another point Hume adds:

If we take in hand any volume of divinity or school metaphysics, for instance; let us ask: Does it contain any abstract reasoning concerning quantity or number? No. Does it contain any experimental reasoning concerning matter of fact and existence? No. Commit it then to the flames: for it can contain nothing but sophistry and illusion.²⁰

Hutcheson and the other thinkers who tried to rehabilitate reason from the ravages it had suffered at the hands of Calvinism failed to understand that the tradition of Logos is all of one piece, and that in order for it to hang together, the entire intellectual superstructure must rest securely on the firm foundation of metaphysics. In lieu of metaphysics, Hutcheson taught “pneumatics” to his Scottish charges. Smith would later make invidious comparisons between experiments in physics, which led to real knowledge, and the science of pneumatics, which was made up of “subtleties and sophisms” covering “the doctrine of spirits, of which so little can be known,” and the “whole cobweb science of Ontology.”²¹

Thus began the problems that would ultimately doom the Scottish Enlightenment to failure. Scottish philosophy had no foundation in being, for as William Leechman pointed out: “Hutcheson. . . was extremely doubtful of the justice and force of all the metaphysical arguments, by which many have endeavoured to demonstrate the existence, unity and perfections of the Deity. . . . Such attempts, instead of conducting us to the absolute certainty proposed, leave the mind in such a state of doubt and uncertainty as leads to absolute scepticism,”²² which is precisely where it led Hutcheson’s colleague and Smith’s mentor, David Hume.

What the Scottish Robinson Crusoes lacked in philosophical grounding found a convenient substitute in ethnic solidarity. Cut off from the first principles of practical reason, the Scottish Whigs sought solace in the fact that they all believed the same things anyway, even if the popish and backward Jacobites did not agree with them. As a result, sentiment replaced being as the foundation for practical reason, and ethics became aesthetics. The principles of practical reason which hitherto had been the infallible guides to men wishing to attain the good were transmuted, in the absence of any metaphysical foundation, into mere perceptions. Moral judgments were arrived at not by the application of moral principles to circumstance, but instead they arose spontaneously, not as conclusions but as perceptions, from natural feelings of approval or disapproval.²³

In other words, in an age of great ethnic unanimity among the Scottish Whigs but no metaphysical grounding, public opinion replaced practical reason as the source of the moral order. Instead of positing that good is to be pursued and evil avoided as the first principle of practical reason, the Whig savants of Scotland opined that “We seem to have a natural interest

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in other people's motives and we find ourselves naturally disapproving of those which seem to be vicious."²⁴

On this slim reed the Scottish Enlightenment set out to build a new economic and political order. Hutcheson claimed that our moral sense was analogous to our sense of beauty. Just as we respond to "Regularity, Order and Harmony" in the aesthetic realm, we are drawn automatically toward virtue in the moral sphere.²⁵ Here was a rejection of the reality of evil in human history that was as breathtakingly naïve as the Calvinist insistence on innate depravity had been breathtaking in its pessimism. No objective account of human history could sustain either assertion, but that didn't stop the Scottish Whigs from attempting to undo the pessimism of their Calvinist forebears by erring just as egregiously in the opposite direction. Ross claims that

This concept of a benevolent "Author of Nature," who gave humans strong positive feelings to motivate them to act virtuously, came to have considerable appeal for many writers in the 18th century. Henry Fielding spins his plot of the lusty Tom Jones pursuing the lovely and virtuous Sophia (heavenly wisdom) from this theory. And Hutcheson's most gifted pupil, Adam Smith, reveals in *Theory of Moral Sentiments* how deeply influenced he is by it.²⁶

Smith would build upon the metaphysically shaky foundation which Hutcheson had erected at Glasgow by "elaborating systems of ethics and political economy, which connected a comprehensive analysis of human nature with a persuasive explanation of the regularities in human behavior manifested in social and economic institutions,"²⁷ but he could never compensate for its shortcomings.

Phillipson makes clear that Smith's classical education led him away from Aristotle and the Scholastic tradition into the arid wastes of a neopagan Stoicism, a doctrine antithetical to Christianity but compatible with the Newtonian appropriation of Empedocles. Smith's reading of Epictetus's *Enchiridion* and Cicero's *De Officiis*:

provided a Stoic . . . view of the world, inviting young people to think about the duties they owed themselves, their fellow citizens, and their deity. They taught them how to square their private interests with those of the public.²⁸

Smith derived "his understanding of the 'immense and connected system' of the universe operating harmoniously according to natural law" from the Stoics and was quick to see that this neopagan version of the universe, which Newton shared, had obvious economic implications. To begin with, the system was "self-regulating." Smith, therefore, "could envision within this framework the establishment of norms of human morality and the market regulating economic activity as if an 'invisible hand' were at work."²⁹

During his third year at Glasgow, Smith was introduced to the theories

that would underpin his use of the term “invisible hand,” when he took Robert Dick’s course in Newtonian physics. The course was anti-metaphysical to the core and only reinforced Smith’s distaste for pneumaticks and what he termed “the cobweb science of Ontology.” Since Newtonian physics was Whig capitalism projected onto the universe, the course included an attack on the metaphysical tradition in general and the notion that being had entelechy in particular. As he made clear in the series of lectures he was to give on rhetoric in Edinburgh years later, Smith saw Newton as the alternative to Aristotle. When it came to the intellectual life, there were ultimately only two choices:

we may either, like Aristotle, go over the Different branches in that order they happen to cast up to us, giving a principle commonly a new one for every phaenomenon; or and in the manner of . . . Newton we may lay down certain principles known or proved in the beginning, from whence we account for the several Phenomena, connecting all together by the same Chain. This latter . . . is undoubtedly the most Philosophical and in every scienc[e w[h]ether of Moralls or Nat[ural] ph[ilosophy] etc., is vastly more ingenious and for that reason more engaging than the other. It gives us pleasure to see the phaenomena which we reckoned the most unaccountable all deduced from some principle (commonly a well known one) and all united in one chain. . . .³⁰

Although he wasn’t a physicist, Hutcheson, like the other lights of the Scottish Enlightenment, was a Newtonian who was convinced that Newton’s discoveries in physics had relevance for moral philosophy. Hutcheson and the rest of the Scottish Enlightenment cherished the

hope that from a more strict philosophical enquiry into the various natural principles or natural dispositions of mankind, in the same way that we enquire into the structure of an animal body, of a plant, or of the solar system, a more exact theory of morals may be formed, than has yet appeared: and a theory too built upon such an obvious and firm foundation as would be satisfactory to every candid observer.³¹

Adam Smith imbibed this “enthusiasm for ‘moral Newtonianism’” from Hutcheson and Dick during his student days in Glasgow and would become its most famous exponent. From Hutcheson, Smith learned that morality was really physics, because as Hutcheson put it:

Self-love is really as necessary to the Good of the Whole, as Benevolence; as that Attraction which causes the Cohesion of the Parts, is as necessary to the regular State of the Whole as Gravitation. Without these additional Motions of Benevolence, Self-love would generally oppose the motions of Benevolence and concur with Malice or influence us to the same Actions as Malice would.³²

This meant, of course, that moral behavior wasn’t really moral because it “was determined by a process over which reason and calculations of interest exercised no control whatsoever.” Hutcheson drove Calvinist determinism out with a pitchfork only to have a new form of determinism return

through the back door as physics. The Scottish Enlightenment's attempt to rehabilitate reason led to its denigration once more, this time under the guise of physics rather than under the guise of theology. The Elect congregating in a church where only saints could be members had been replaced by the Freemason in his lodge, or the Whig Oligarch in his tobacco firm. Both "old light" and "new light" Scots now agreed that "The weakness of our Reason and the avocations arising from the Infirmary and Necessities of our Nature, are so great that very few Men could have form'd those long Deductions of Reason, which shew some Actions to be in the whole advantageous to the Agent, and their Contrary's pernicious."³³

Hutcheson's Newtonian system of morals had uncanny similarities to the Calvinist determinism he sought to overthrow because both were ultimately "controlled by an internal mechanism which was hard-wired into the constitution of human nature itself."³⁴ Under Calvinism, man was condemned to be bad; under the sentimental psychology which was the underpinning of Whig Capitalism, he was condemned to be good. In neither instance did practical reason as the guide to human will have a determinative role to play. Hutcheson's moral system was based on "a Newtonian principle" which explained the principle of moral order in the universe in exactly the same way that the principle of gravity had explained the principles of order in nature. By means of it, he claimed, "all is capable of harmony."³⁵

Hutcheson failed to understand that there can be no morality without free will. Similarly, he failed to see that Newtonian mechanisms were the antithesis of practical reason because they obviated the need for moral behavior. He fell into the very trap that Mandeville had laid for the sentimentalists because, unlike the Christian God, who tolerated evil but did not condone it, the Newtonian system needed vice if it were to remain in balance. Men had to do evil so that the economy could prosper. Evil, therefore, was good, which is precisely what Mandeville had said. Following Mandeville's lead Pierre Nicole would claim that:

It is greed which makes . . . [men] act, and they do so with such a good grace that one believes one does them a favour by employing their services. . . . Think how much charity would be required to build a whole house for another man, to furnish it completely and then hand him the key. Greed does this quite joyfully. What a degree of charity would be needed to go search for medicines in the Indies, or abase oneself to the vilest services and the most painful? Greed does all this without complaining.³⁶

Those who claimed that "amour-propre . . . would unintentionally serve the public good much better than random acts of charity,"³⁷ were obviously unfamiliar with what the Jesuits achieved in Paraguay. The Jesuits, who had preserved the tradition of practical Logos as handed down from Socrates, Plato and Aristotle understood that every economic decision was an act of

the will, whereby the agent attempted to achieve the good. Economics was, therefore, a branch of practical reason, where it occupied a middle position between ethics, which is the science of how the individual achieves the good, and politics, which is the branch of practical reason which explains how men united in the state achieve the same end. Economics was most certainly not a branch of pure reason, like physics, because human beings making economic decisions—unlike atoms, feathers, projectiles, etc.—choose their own path according to what they perceive as good. “Moral laws are universally applicable” to economic decisions because

They regulate the free actions of human beings. Thus, they retain their applicability to every particular kind of human action which occurs in the area of economic life. . . . The laws of morality direct human actions toward men’s last and highest goal. Therefore, every action which contradicts them repudiates the proper relationship between purely temporal goals and man’s main goal.³⁸

In following Hutcheson’s teaching, Smith failed to see that bad ethics necessarily leads to bad economics. Both men discovered in spite of themselves is that economics depends on ethics. Or as Pesch puts it, “Economics as a practical science must remain in harmony with the moral law.”³⁹ Economics, Pesch continues, referring obliquely to the bad fruit which Newtonian physics has borne whenever it got grafted into economics, is:

not entitled to present what is morally impossible as scientifically established truth, any more than it can propose what is physically impossible. Gladstone’s saying that what is morally false cannot be politically correct applies equally in the area of economics. Thus, economics is not: “the science of how to increase wealth in whatever way possible. If that were the case, it would have to include among its methods also deception, theft, and the plunder of conquered people. But where can you find an economist who has the gall to propose that?”⁴⁰

The short answer to that question is in Glasgow and in Manchester and in Chicago, among the Whig Oligarchs and their placemen and their descendants—thinkers like Milton Friedman and the Chicago Boys—who between them confected the system of “deception, theft, and the plunder of conquered people” known as Capitalism.

Endnotes

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Chapter Fifty-Four

Adam Smith Meets David Hume

In 1740 Smith left Glasgow and enrolled at Oxford as a Snell exhibitioner at Balliol College. In the eyes of the Scottish Whig oligarchs who promoted Smith's career, Oxford was "a faction-ridden sump of Jacobite and high Anglican zealotry, and as a by-word for academic incompetence,"¹ but, granting that, it was still desirable as a place where Presbyterians could shed their Scottish accents and learn the mores of the English ruling class. Oxford was not considered an academic powerhouse in the way that Glasgow University was. After arriving at Oxford, Smith complained that "the greater part of the publick professors have, for these many years, given up altogether even the pretence of teaching,"² without mentioning that his idol Newton had become notorious for exactly the same sort of neglect at Cambridge.

Smith, needless to say, spent six unhappy years at Oxford. The reasons for Smith's unhappiness are not difficult to discern. Smith was sent to Oxford to learn the manners and mores of a people who held him and his fellow Scots in contempt. One reason Smith got hired as a university professor in Glasgow (and the more qualified David Hume did not) was his mastery in speaking Oxford English, not the lowland patois that Sir Walter Scott would recount in his novels. The attitude of the English toward the Scots was best expressed by James Wolfe, the English soldier who took part in the brutal suppression of the Jacobite rising of 1745. "The English," Wolfe opined, "are clean and laborious, and the Scotch excessively lazy and dirty. . . ."³ The Lowland Scots suffered from a massive inferiority complex *vis à vis* the very people that Smith was being paid to imitate. On his ride from Edinburgh to Oxford in the summer of 1740, Smith made the same sort of invidious comparisons, attributing national differences to diet: "the common people in Scotland, who are fed with oatmeal, are in general neither so strong, nor so handsome as the same rank of people in England, who are fed with wheaten bread."⁴

Religious differences exacerbated the ethnic differences. Oxford was a hotbed of Anglican privilege and Jacobite sympathy. To make matters still worse, the curriculum was based on the "exploded system" of Aristotelian scholasticism that Smith would go on to portray as inferior to Newtonianism.

Smith and his mentors Isaac Newton and David Hume never knew their fathers. Newton's mother was cold and calculating and willing to abandon her three-year-old son for financial advantage. Smith's mother, on the other hand,

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was as devoted to her son as Newton's mother was indifferent. All three theoreticians of the Whig worldview grew up in what Smith referred to in a telling passage in *Theory of Moral Sentiments* as a "fatherless world."⁵ In a passage which Ross claims "can perhaps be taken as self-directed," Smith wrote: "To this universal benevolence. . . the very suspicion of a fatherless world, must be the most melancholy of all reflections. . . . All the splendour of the highest prosperity can never enlighten the gloom with which so dreadful an idea must necessarily overshadow the imagination."⁶

Smith lived in an intellectually ambitious, commercially prosperous, ethnically homogenous, supportive culture, as an orphan who could always find support for his education and career from benevolent figures who seemed to have nothing but the common good in mind. He then projected his experience growing up on the world at large as "universal benevolence." Smith would have many "fathers" in Scotland who would generously (but not without ulterior motives) promote his career, but none of them possessed the intimacy and power that only flesh and blood can confer. As a result, authority became an abstraction that flowed from principle and not primarily from relationship. The wealthy Whig oligarchs who promoted Smith's career were the exact analogue of the distant Deist architect of the Universe who created the perfect circular motion of the Newtonian system.

Smith, the fatherless boy, was avid to please his teachers. He could do this at Glasgow University but not at Oxford. As a result, the stress of being among Jacobite Anglicans led Smith to have a nervous breakdown in 1743.⁷ His biographers surmise that the illness was psychosomatic and claim that he "struggled all his life with psychosomatic illness of this kind."⁸ Unable to find a sympathetic mentor who shared the Whig Scottish worldview at Oxford, Smith turned inward and

neglecting physical exercise, read himself into a lethargy of spirits, accompanied by involuntary shaking of the head and skin disease, or even the bodily debility, pains in the limbs and skin eruptions usually associated with the heavily salted diets of sailors.⁹

During this Stoic and self-destructive regimen of reading, Smith discovered the writings of David Hume. David Hume was born at Edinburgh in 1711 into a cultural matrix which was strikingly similar to Adam Smith's. Like Smith, Hume was born fatherless into a Calvinist family, and like Smith he abandoned his Calvinism early on in favor of Deism. Like Smith, Hume never married and lived with his mother. Unlike Smith, Hume never shed his Scottish accent. Like Smith, Hume traveled to France in a quasi-official capacity. It was in France that Hume composed his first work, a *Treatise on Human Nature*, whose three volumes according to its author's account "fell dead-born from the press," without even exciting "a murmur among the zealots."¹⁰ One year later, Hume published his *Essays, Moral and Political*, which influenced Smith at Oxford and which hastened their meeting in 1749 when both men were at Edinburgh. This relationship lasted until Hume's death in 1776 just as *Wealth of Nations* was coming off the press, unlike

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Hume's first opus, to universal acclaim.

Smith was equally indebted to both Hutcheson and Hume for the metaphysical underpinnings of his economic theories. Copleston claims that Smith's "encounter with David Hume was to be the decisive event in his intellectual development, providing him with a resource he could use to lay the foundations of a philosophy and a deep and enduring friendship."¹¹ At the very moment when the resurgent Jacobite cause at Oxford was creating doubts about the validity of everything Smith had learned at Glasgow, Hume arrived on the intellectual scene and gave new life to the empiricist project which Locke had begun and which was the foundation of the Whig worldview, for "just as Locke derived all our knowledge ultimately from 'simple ideas,' so Hume wishes to derive our knowledge ultimately from impressions."¹²

Hume inherited the empiricist project from Locke, who felt that every concept could be reduced to "simple ideas." The word "substance," for example, can, upon reflection, be resolved into a collection of "simple ideas." As Hume puts it, "the idea of a substance. . . is nothing but a collection of simple ideas that are united by the imagination and have a particular name assigned them by which we are able to recall, either to ourselves or others, that collection."¹³

The same rule applies to causality, which Hume felt could be reduced

to such relations of space and time as contiguity, temporal succession, and constant conjunction or togetherness. There is here no necessary connection between ideas; there are only factual spatio-temporal relations. Here causation as a philosophical relation affords no ground for proceeding beyond experience by inferring transcendent causes from observed effects. In causation considered as a natural relation there is indeed, an inseparable connection between ideas; but this element must be explained subjectively, with the aid of the principles of association.¹⁴

This is not to say that Hutcheson would have agreed with Hume. In fact, the opposite was the case and Hutcheson was "horrified" by Hume's skepticism,¹⁵ and rightly so, because Hume undermined the foundations of morality in reason that Hutcheson and his "new light" colleagues were trying to rescue from the ravages of Calvinism. Hume was no atheist, but he believed in a kind of Deism which considered religion a "useless hypothesis." Religion was useless: "because our knowledge of this cause being derived from the course of nature, we can never, according to the rules of just reasoning, return back for the cause with any new inference, or, making additions to the common and experienced course of nature, establish and new principles of conduct and behavior."¹⁶

Since all thoughts were based on perceptions, there was no thought that allowed us to know if any object was the source of the perception. Nor was there any thought which would allow us to judge those perceptions. If this were true of, say, candles and horses, it was *a fortiori* true of God and religion. It also had economic implications, for if reason could not come to new knowledge when it came to a

posteriori statements, then why should labor lead to surplus value in the economic sphere? Similarly, since reason cannot conclude, as St. Paul had claimed, "that it was rational to acknowledge God,"²⁷ no conclusion can legitimately be drawn from it concerning human conduct, religious or morality. "True religion" is reduced, therefore, to the recognition of a purely theoretical statement of probability.

And yet Hume, not unlike Hutcheson, came to Calvinist conclusions, in spite of his rejection of the faith of his fathers (or mother), when he wrote "Reason is, and ought to be the slave of the passions."²⁸ Needless to say, there was rejoicing in the counting houses when the Whig oligarchs heard that reason, which their Calvinist upbringing had made suspect in their eyes, was, even if rehabilitated by the Scottish professors they were paying, not going to impinge on their ability to make money.

Reason, according to Hume, consisted of two sorts of propositions: analytic, which expressed relations of ideas, and synthetic statements, which expressed matters of fact. Analytical statements are necessarily true; synthetic statements are contingent. In his first *Enquiry*, Hume claims that "all the objects of human reason or inquiry may naturally be divided into two kinds, to wit, relations of ideas and matters of fact."²⁹ The sun will rise tomorrow is an example of a synthetic statement. The truth of analytic statements cannot

be refuted by experience, for nothing is said about matters of fact. They are formal propositions, not empirical hypotheses. And though, of course, mathematics can be applied, the truth of the propositions is independent of this application. In this sense, they can be called *a priori* propositions, though Hume does not use the term.³⁰

A mathematical proposition would be an example of an analytic statement which expresses relations of ideas. Its truth depends "simply and solely on the relations between ideas, or, as we might say on the meanings of certain symbols, and it requires no confirmation from experience."³¹ The relations asserted in analytic statements are necessary, which is to say, they are not contingent on any actually existing thing.

As a result of making this distinction, Hume comes to the inescapable conclusion that statements are either true or false or real or unreal. They are either necessary but empty of all content or real but contingent solely upon experience, which is the antithesis of reason. According to Hume's philosophy, all *a priori* propositions are:

analytic propositions, their truth depending simply on the meanings of symbols. No synthetic proposition is, therefore, an *a priori* proposition; it is an empirical hypothesis, enjoying a greater or lesser degree of probability. The existence of synthetic *a priori* propositions, propositions, that is to say, which assert matters of fact but which at the same time are absolutely certain, is excluded.³²

This is another way of saying that the mind can entertain thoughts, but it cannot access being. When it comes to synthetic propositions, necessity is an il-

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lusion which is:

the effect of this observation, and is nothing but an internal impression of the mind, or a determination to carry our thoughts from one object to another. . . . There is no internal impression which has any relation to the present business, but that propensity which custom produces to pass from an object to its usual attendant.²³

The mind is confronted with two equally unsatisfactory alternatives:

We have on the one hand analytic and "formal" propositions and on the other empirical hypotheses; there is, in this scheme, no room for synthetic a priori propositions. And this is indeed the problem, whether or not there are propositions which are certain and yet informative about reality.²⁴

If there is no such thing as a synthetic a priori proposition, then no statement can be normative or true if it concerns the real world:

The backbone of Hume's philosophy was an absolutely conclusive demonstration that all claims that reason has the power to supply us with knowledge about the world, and the power to regulate our understanding and conduct, rest on essentially theological claims about the special powers of reason and are therefore "unphilosophical."²⁵

The absence of any possibility of synthetic a priori statements led Hume to crow that "reason was the slave of passion." Reason may be useful in doing geometry, but it cannot help man make decisions about issues that are purely contingent. To put his argument in terms that Plato and Aristotle might have understood, reason cannot advise man on how to pursue the good. The only guide available in contingent matters is experience. Since experience alone cannot distinguish between those experiences which lead to happiness and those which lead to unhappiness, Hume's philosophy precludes the possibility of practical reason.

Hume also minimized the part played by reason in morals. He maintains that moral distinctions are derived ultimately, not from reasoning, but from feeling, from the moral sentiment. Reason alone is not capable of being the sole immediate cause of our actions. Indeed, Hume says that "reason is and ought to be the slave of the passions, and can never pretend to any other office than to serve and obey them."²⁶

Ultimately reason cannot decide upon a course of action because reason has no access to or grounding in being. Reason is ultimately impotent because it is confined to a world of perceptions. As a result, reason enjoys:

no access to a world of objects existing independently of these perceptions, and since all ideas are derived from something antecedently present to the mind, it follows that it is impossible for us so much as to conceive or form an idea of anything specifically different from ideas and impressions.²⁷

This means that there is ultimately no way of knowing whether any of those perceptions corresponds to being, to the "thing" Aquinas referred to when he

claimed that truth could be defined as "*adaequatio rei et intellectum*." For Hume, it's all a matter of feeling, a view he shared with Hutcheson, no matter how repugnant the latter might have felt about it. Powerful feelings elbow weaker feelings out of the way and determine a man's course of action in the same way that a unruly crowd pushes forward to buy bread at the marketplace: "When I give the preference to one set of arguments above another, I do nothing but decide from my feeling concerning the superiority of their influence."²⁸ According to Hume's view, "all our reasonings concerning cause and effect are derived from nothing but custom, and belief is more properly an act of the sensitive rather than of the cognitive part of our natures."²⁹ How then can we decide between rational and irrational beliefs? Hume does not appear to give any very clear and explicit answer to this question. He gives no explanation for change either. "Philosophy informs us that everything which appears in the mind is nothing but a perception, and is interpreted and dependent on the mind,"³⁰ but we cannot infer the existence of objects from perceptions.

Since the common experience of mankind involves deliberation over the proper course of action in innumerable areas of life, Hume can't very well dispense with the idea of practical reason. Instead, he transmutes morality into a branch of psychology. The mind is a product of the imagination. We have experience A and then we have experience B, and then the mind kicks in and creates a link between those two phenomena, totally extraneous to them, and it designates that imaginary connection "causality" or "substance," or something equally chimerical. The mind does this by itself, or as Hume puts it: "The imagination, when set into any train of thinking, is apt to continue even when its object fails it, and, like a galley put in motion by the oars, carries on its course without any impulse."³¹

Man is a prisoner of his perceptions because the mind works automatically in creating self-perpetuating structures of thought. The only thing that saves man from hopeless solipsism is "sympathy." For Hume all beings were endowed with "the principle of sympathy or communication" and it was on this that their "capacity for sociability ultimately depended." The mind is incapable of knowing reality but it exhibits "sympathy," and it is:

To this principle we ought to ascribe the great uniformity we may observe in the humors and turn of thinking of those of the same nation, and 'tis much more probable that this resemblance arises from sympathy than for any influence of the soil and climate, which tho' they continue invariably the same are not able to preserve the character of a nation for a century together.³²

The mind acquires the ability to form sympathy from society, which is to say, from cultural conditioning. According to Hume, "we can form no wish, which has not a reference to society."³³ What we call a moral judgment simply expresses the feeling of approval or disapproval which the man who makes the judgment has for the action or quality or character in question. This means that any sense of reason or order in the world was a figment of the imagination, and that that imagination

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was the product of cultural conditioning. This means that justice is a social artifice or convention and that there are no eternal laws of justice independent of man's conditions and of public utility.³⁴ "The sense of justice and injustice is not derived from nature but arises artificially though necessarily from education and human conventions."³⁵ Justice is "artificial" in the sense that it is invented as a remedy for human selfishness and rapacity combined with the scanty provision which nature had made for his wants.

Like all forms of skepticism, Hume's philosophy is ultimately self-contradictory. If there is no substance, whether extended or unextended, which can be called the "soul," then there is no such thing as personal identity. And if there no such thing as personal identity, then who is this David Hume who is explaining all this? If the mind is simply the sum of experiences like "blue" and "hard," how did it get the ability to judge those blue hard things as different from itself? If substance is a chimera, how is the mind able to conclude that the same apple which once was green is now red, if the mind is nothing but an aggregated of atoms labeled green or red? How is it possible to talk about the mind of, say, David Hume perduring over six decades:

What then causes our propensity to attribute identity and simplicity to the mind? According to Hume, we tend to confuse the two ideas of identity and of a succession of related objects. For example, an animal body is an aggregate, and its component parts are constantly changing: in the strict sense it does not remain self-identical [this is an argument for the existence of the soul]. But the changes are normally gradual and cannot be perceived from moment to moment.³⁶

Just what is it that perdures in David Hume if the mind is nothing but a succession of atomistic experiences? In order to answer these questions, we need recourse to terms like "soul," "form," "substance," none of which is derivable from impressions like "blue" or "hard." Beyond that, the mind calls the idea atoms into being, certainly in the sense that it confers on these experiences the form which allows them to be denominated ideas or impressions or experiences in the first place.

If as Hume claims, "the mind is a kind of theatre where several perceptions successively make their appearance . . ."³⁷ then he is tacitly admitting that the mind is as different from perceptions as a theater is from actors on its stage. But if that is the case, then the whole empirical project collapses and we have to admit that the mind transcends what it experiences. Hume simply could not resolve this issue and ended by admitting:

there are two principles which I cannot render consistent; nor is it in my power to renounce either of the them, viz, that all our distinct perceptions are distinct existences, and that the mind never perceives any real connection among distinct existences For my part, I must plead the privilege of a sceptic and confess this difficulty is too hard for my understanding.³⁸

Furthermore:

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How is memory possible on this theory? Further, as he admits, if the mind can be said in some sense to collect the collection, how can it do this when it is identified with a collection, each member of which is a distinct thing? Does one perception enjoy awareness of others?³⁹

For how can he prove that images or perceptions are representations of objects which are not themselves images or perceptions. "The mind has never anything present to it but the perceptions and cannot possibly reach an experience of their connection with objects. The supposition of such a connection is, therefore, without any foundation in reasoning."⁴⁰

Hume claimed that the solution to the dilemma which his skepticism created was action: "The great subverter of Pyrrhonism or the excessive principle of scepticism is action and employment and the occupations of common life."⁴¹ It may not be possible to refute these objections in the classroom, but in ordinary life they "vanish like smoke and leave the most determined sceptic in the same condition as other mortals."⁴²

To claim that "Nature is always too strong for principle," as Hume does, says little of his ability as a philosopher, something he himself admits when he writes that:

Most fortunately it happens that since reason is incapable of dispelling these clouds, nature herself suffices to that purpose. . . . I dine, I play a game of backgammon, I converse and am merry with my friends, and when after three or four hours amusement, I would return to these speculations, they appear so cold and strained and ridiculous that I cannot find in my heart to enter into them any further. Here then I find myself absolutely and necessarily determined to live and talk and act like other people in the common affairs of life.⁴³

What Hume meant is that his philosophical system fell apart at the moment it made contact with reality. If he wished to be a philosopher, Hume had to abandon any pretense that what he said had any relevance to the world in which he lived. The converse of that statement was also true, and for our purposes, more relevant. If he wished to succeed in this world, the man of action had to eschew all philosophy as humbug and get about the serious business of life, unencumbered by any moral principles, which were all chimerical anyway. Action in the absence all norms of practical reason meant gratifying passions and appetites like lust and greed. In a country like Great Britain, where custom still held sway, that meant, at least for a while, restraining the sexual passion and giving full reign to avarice. The bourgeois view of life would perdure until the death of Queen Victoria. The demise of sexual morality happened, as Virginia Woolf would claim, overnight. The collapse of economic morality didn't begin with Hume, but it accelerated under his influence and the influence of his most famous pupil, Adam Smith.

Hume's contribution to philosophy would have other pernicious effects as well. "If," as Copleston claims, "moral distinctions are founded on feeling rather than reason, we cannot go beyond an agreement in feeling and invoke a further criterion."⁴⁴

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The same thing is *a fortiori* true of disagreements. When it came to disagreements between groups which had little in common, force became the only conceivable arbiter. Whenever an appeal to sympathy or commonly shared sentiments failed, recourse to reason was impossible. The disagreeing party was termed a barbarian, and at that point the civilization-bearing Whigs would then feel justified in having recourse to deadly force. If human beings did not have a human nature based on reason, then the sole criterion in dealing with people who lacked sympathy was force, which meant that the logic of empire would get articulated by Kurtz in *The Heart of Darkness*, when he wrote in his diary, "Exterminate the brutes."

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Chapter Fifty-Five

The Jacobite Rising of 1745

On July 23, 1745, in the same year that Pope Benedict XIV issued *Vix pervenit* reaffirming the traditional teaching of the Catholic Church on usury, Charles Edward Stuart, the 24-year-old scion of the Stuart line, was put on shore by French sailors at Moidart on the western shore of Scotland with seven followers. It seemed unlikely, both militarily and mathematically, that this small group would overthrow the Hanoverian monarchy in Great Britain, but that was their intention, as they went from one clan to another drumming up support in the Highlands of Scotland for regime change south of the River Clyde. The Highlands were a primitive feudal society, which meant that Bonnie Prince Charlie had an initial advantage in raising troops. He didn't need large sums of money to pay for mercenaries; all he needed to do was convince the lairds that his cause was just, and they in turn could summon their vassals to fight. The lairds could command labor directly without the intermediary of money, which was controlled by the usurers and bankers in the south. Their vassals were already trained in the use of traditional weapons like the Claymore, or two-handed sword, which would wreak havoc and mayhem during the early stages of the rising of 1745. This more than anything else explains the rapidity with which the Jacobite army came into being in the Highlands of Scotland as well as the reasons for their initial success. If the Highlanders could surprise their foes and fight them at close quarters, they had a distinct military advantage.

This is precisely what happened at the Battle of Prestonpans, outside Edinburgh, in September 1745. The garrison outside Edinburgh was overwhelmed when a band of howling Highlanders brandishing their Claymores took the government's soldiers by surprise and then hacked them to death. The Whig government, whose attention was focused on the Netherlands where Cumberland, the King's son, was contesting France, was also taken by surprise. Knowing that no enemy can fight with an army at its back, the French exploited the situation brilliantly by sending a brigade of one thousand Irish troops to support the Pretender in the rising. The Pretender for his part pursued his advantage and pushed forward into English territory.¹

On November 8, 1745 the Jacobite army crossed the Clyde and entered England. By December 4, they had advanced to Derby, 127 miles north of London. Since the Pretender had decided to advance down the western border of England, the Jacobite army was even closer to Oxford, where

Adam Smith was reaching the end of his tenure as Snell Exhibitioner at Balliol College.

Needless to say, it was not a good time to be a Scot at Oxford. On the one hand, the Scottish people were regarded as dirty and barbaric by the English. But, on the other hand, the Lowland Scots, because of their allegiance to the Hanoverian usurpers, were held in even less esteem by the Anglicans and Jacobites who made up the bulk of Oxford's faculty and students. So Smith was in a doubly uncomfortable position. There was no rising among the Oxonians, no matter how deep their sympathy for the Jacobite cause, and Smith would ascribe this failure ultimately to economic causes. The failure of English Jacobitism to help the Prince was due to a liquidity problem. His supporters among the English and Welsh squirearchy did not have the ready cash to buy soldiers and unlike the Scots they could not bring their dependents into a war, because they had dispensed with the overwhelming majority of them during the enclosure crisis, and those who were left had no military training.

The Duke of Cumberland, who was 24-years-old, dismissed the rising of 1745 with the contempt which the English customarily heaped on the Scots as a barbaric but militarily inconsequential rabble. He turned his attention instead to a defense of the Hanoverians' ancestral lands and ended up getting defeated at the Battle of Fontenoy on May 11 at the hands of Marshal Maurice de Saxe. Cumberland was dedicated to the House of Hanover by blood, the son of King George II and grateful to the Whigs because they had placed his grandfather on the throne in 1714 and because "he believed that only the Whigs could be trusted as defenders of the Protestant succession and the royal family."² Cumberland was no military genius, but he was the king's son and the best general that the English had at the time, and so there was a sense of relief among the Whigs when Cumberland reluctantly broke off his war with the French on the continent and sailed home to deal with the Jacobites, the group which everyone considered the French proxy on the domestic front.

The sides in this rising had not changed since the rising of 1715 because the main issues had not been resolved. The Lowland Whig Scots who were loyal to the house of Hanover, whose accession to the throne had prompted the rising of 1715, continued to prosper as a result of the Act of Union of 1707, and the Highland feudal Catholic Jacobites continued to suffer economically as resources drained into the hands of those who controlled the money economy.

The same grievances which had fueled the rising of 1715 remained unaddressed and unresolved. The passage of time had if anything enlarged the conflict into a clash of civilizations in which the new order, which was Protestant, English, and Capitalist contested the old order which was Cath-

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olic, French, and Mercantilist for world hegemony.

During the 1740s, the English "commonly associated the Highlanders with savagery, sedition, Catholicism, and the imperial ambitions of France."³ Since France had allied herself with Spain against George II in 1744, the English felt that Charles Edward was the harbinger of a global conflict and that in confronting the Pretender, the Whigs were "confronting the combined might of the world's major Catholic imperial powers."⁴ The rising of 1745 provoked wide-spread anti-Catholic sentiment because "it was widely asserted that the Catholic Church was operating in league with the Jacobites and the king of France."⁵ In fact:

Throughout the empire, supporters of George II had long claimed that the Jacobites were part of an international conspiracy, a "three-headed monster" advancing the interests of the pope, the Stuart family, and the rulers of France. For those who subscribed to this vision of world politics, the events of 1745 seemed only to confirm their worst fears. Charles Edward, after all, was Catholic. He had been raised as a child in Italy, and prior to his arrival in Scotland he had mustered his forces, small as they were, in France. A French ship had carried him north. . . . In the words of one writer, the Jacobites were agents of the Roman "Antichrist," "Join'd with Hellish band of Highland Thieves."⁶

The other side in the conflict was even less ambiguously religious than the Jacobites. The government forces received "unambiguous, vigorous support . . . from the Presbyterian establishment," who

discouraged Jacobite recruitment, gave assistance to the government's forces, and prayed only for George II. Edinburgh's established clergy fell silent after Charles Edward entered their town. Church bells rang for services but no ministers appeared in the pulpits, and the clerical strike continued until the Jacobites had left. The sectarian pattern in responses to the rising was even more dramatic in Aberdeen and along the northeastern coast of Scotland, where Cumberland declared that "the only people to be trusted" were the members of the Kirk.⁷

The conflict was portrayed as religious, but it was in fact economic. In psychoanalytic terms, the return to British soil of the grandson of James II could be termed the return of the repressed. The Whigs, who kept claiming that history and progress were on their side, were repeatedly discomfited by the monotonous regularity of the Jacobite risings which had continued unabated since the Glorious Revolution. Even if it took on religious overtones, this discomfiture had an economic basis that stretched back to the looting of Church property and the enclosure crisis which had displaced the rural population from the land which was the source of their sustenance. That discomfiture had picked up new energy with the creation of the Bank of England and the Act of Union, which created wealth for the fortunate few who were on the right side of the usury equation, but misery in the form of the onerous taxation which was needed to pay off an ever increasing state debt for those who were on the wrong side.

The truly global dimensions of that conflict would become apparent only after the outcome of the rising of 1745 had been resolved. That much was clear. What was not clear at the moment was the reception which the Highland army would receive when it crossed the Clyde. The Whigs were so sure that north of England was a hotbed of Catholic Jacobite sentiment that they based their military counter-strategy on it:

In the autumn of 1745 Newcastle anticipated that Charles Edward would march south from Scotland down the western side of England because there were "a great number of Roman Catholics in Lancashire," and furthermore because the Jacobites might expect "to be joined by numbers from Wales." A few weeks later, while he was still in Flanders, Cumberland received a detailed report suggesting that as many as 2,000 men, mostly "Papists," were ready to enlist and fight for Charles Edward in Shropshire. After the Jacobite army marched into England along the route Newcastle had predicted, many observers expected it to attract Catholic recruits.⁸

As his defeat on the continent had shown, Cumberland was no military genius, but he was smart enough to understand that the Jacobites' reliance on "the fierce Highland charge" as their main weapon left them dangerously exposed on an open field of battle. Without the advantage that surprise and fighting at close quarters brought, the Highlanders were going to be defenseless against the cavalry charge and the fire power of artillery, which could project force from a distance.

When Cumberland's forces met up with the last remnant of the retreating Jacobite army at Culloden moor outside of Inverness, the gateway to the Highlands on April 16, 1746, the Jacobite army was routed, and the slaughter which ensued earned Cumberland the sobriquet "butcher." The Jacobites who did not die in the heat of battle were "systematically executed."⁹ One of Cumberland's commanders later wrote, "We had an opportunity of avenging ourselves for that and many other things, and indeed we did not neglect it, as few Highlanders were made prisoners as possible."¹⁰

The policy of cold-blooded murder that began in the heat of battle continued long after the clamor of battle had died down. "Charles Edward's men fought according to established rules and would not harm anyone off the field of battle,"¹¹ but more than a month after Culloden, Bland, another of Cumberland's officers, "continued to believe that it was better to kill Jacobite soldiers than to maintain them as prisoners."¹² The aftermath of Culloden was as bloody as the battle itself. Four Scottish lairds were beheaded in the tower of London, and 116 captured soldiers were hanged until not dead and then drawn and quartered, often under the approving eye of George II. Lesser measures such as transportation and death in prison led to the disappearance of over 3,400 men, women and children.¹³

Prince Charlie escaped from the slaughter at Culloden moor and after

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a number adventures, amorous and otherwise, eventually sailed back to France and the court of St. Germain in France on September 20, 1746. Once he was gone, the Whig forces "turned to longer term measures"¹⁴ to ensure that the repressed would not return again. Those measures ranged from disarming the Highlanders and making them give up their native dress¹⁵ to "burning crops, seizing livestock, and on occasion attacking entire communities, including old people and children, women and men."¹⁶ After defeating the Jacobite army at Culloden, Cumberland's soldiers then waged war on the civilian population of the Highlands, destroying the homes, raping the women, and burning the crops of anyone who was suspected of Jacobite sympathies.

In the aftermath of the Battle of Culloden we begin to see the perverse fruits of the doctrine of sympathy that was becoming widespread in Whig circles, largely because of the writings of Scots like Francis Hutcheson and David Hume. Practical reason had succumbed to a perverse kind of fideism. The Scottish Enlightenment in its attempt to find a basis for morality that was securely founded in empirical certainty had fatally undermined any notion of man's ineradicable nature as a rational creature. Morality, according to the new dispensation urged by the Scottish savants, was based, not on reason, which all rational creatures shared no matter what stage of civilization they found themselves in, but on sentiment and sympathy, which were, as Hume pointed out, products of culture and social conditioning. For those who experienced sympathy, no explanation was necessary; for those who did not, no explanation was possible. Those who did not experience sympathy and the religion of sentiment could conveniently be categorized as "barbarians," which meant that the normal conventions of war did not apply to them.

"Sympathy," as a result, led to war crimes. "By March of 1746," we are told, "nearly all the conventions governing the treatment of war captives seemed to be breaking down. . . ."¹⁷ "Sympathy" also led to the theft of labor in the form of deportation to the colonies: "In the spring of 1747, the *Scots Magazine* reported that 430 prisoners had recently been boarded onto ships in Liverpool to be carried to 'the plantations.' Overall. . . nearly a thousand prisoners had been sent overseas by the beginning of May."¹⁸ "Sympathy" led to rape, which became part of the official policy of Cumberland's army during the Spring of 1746, as the Jacobite rising was reaching its bloody conclusion. The Scots had the Earl of Stair, a descendant of John Law's one-time admirer, to thank for this policy:

Less than a month after the rising began, the Earl of Stair . . . argued that Charles Edward could be easily defeated because the Highlanders would quit the field when they discovered that they had left "their wives and children to the mercy of their enemies." Stair recommended sending troops "to the countries which

the rebels have left," to "live at discretion." This idea quickly spread through the army's ranks and by early October 1745 it animated the actions of commanders in the Highlands. By the spring of 1746 it had become a central piece of the government's strategy.¹⁹

Looking back on the campaign nine years later, James Wolfe proudly recalled the efficacy of the government's tactics. "A body of troops," he wrote, "may make a diversion by laying waste a country that the male inhabitants have left to prosecute rebellious schemes. How soon must they return to the defense of their property (such as is it), their wives, their children, their houses, and their cattle!"²⁰ Loudon, another of Cumberland's lieutenants in the Scottish campaign, shared Wolfe's view that "molesting" the wives of Jacobite soldiers was the most effective way to convince the men to abandon Charles Edward's cause," and their willingness to implement these methods "increased as they approached Gaelic-speaking communities."²¹

Cumberland's war on the defeated Highlanders included an attempt to destroy their economy and starve them to death. Chesterfield, who was lord lieutenant of Ireland at the time, claimed that the Jacobites were "not enemies, but criminals. We cannot be at war with 'em." Like Cumberland, Chesterfield was a war criminal who "was adamant that Jacobite soldiers should be executed, either on the field of battle or after they had been taken prisoner."²² Cumberland ordered his soldiers to burn the Highlanders' crops and farmhouses, but Chesterfield "advocated cutting off food supplies to all Scotland. . . . He proudly declared that as long as he was lord lieutenant, he would make sure that not even "the loyalist Highlander" would "have an oatcake" from Ireland."²³

Catholic priests and Episcopalian pastors were targeted, giving the persecution a religious aura. Humphrey Bland, another of Cumberland's lieutenants, had his troops arrest Catholic priests and Episcopalian pastors for failure to swear allegiance to George II²⁴ and under his supervision they burned Catholic places of worship. "Between 1746 and 1753, Parliament enacted statutes for the disarmament of Highlanders. . . . the regulation of religious life, and the forfeiture of estates belonging to Jacobites."²⁵ When carried out by the troops under Cumberland's command these policies amounted to a campaign of genocide and ethnic cleansing. When they were carried out by the Scottish Society for Propagating Christian Knowledge (SSPCK), they amounted to a primitive form of social engineering of the sort that would come increasingly common and increasingly sophisticated in the Anglo-speaking world over the next two and half centuries.

The agents who carried out these measures called themselves Presbyterians, but the real cause which motivated the "reformers" was commerce. The goal of these new policies was the promotion of Capitalism: "Guide-

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lines . . . were designed to promote commerce and Presbyterianism, the use of the English language, and loyalty to George II. Military offices played a part in drafting these proposals, and once they were enacted, soldiers helped enforce them.”²⁶

Endnotes

- 1 Geoffrey Plank, *Rebellion and Savagery: The Jacobite Rising of 1745 and the British Empire* (Philadelphia: University of Pennsylvania Press, 2006), p. 35.
- 2 Plank, p. 39.
- 3 Plank, p. 21.
- 4 Plank, p. 4.
- 5 Plank, p. 78.
- 6 Plank, p. 82.
- 7 Plank, p. 81.
- 8 Plank, p. 83.
- 9 Plank, p. 45.
- 10 Ibid.
- 11 Plank, p. 56.
- 12 Plank, p. 46.
- 13 Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Oxford University Press, 2010), p. 76.
- 14 Ross, p. 77.
- 15 Ibid.
- 16 Plank, p. 1.
- 17 Plank, p. 44.
- 18 Plank, p. 51.
- 19 Plank, p. 54.
- 20 Plank, p. 63.
- 21 Plank, p. 54.
- 22 Plank, p. 63.
- 23 Ibid.
- 24 Plank, p. 72.
- 25 Plank, p. 6.
- 26 Ibid.

Chapter Fifty-Six

Adam Smith and Social Engineering

When Adam Smith returned to Scotland in August 1746, four months after the battle of Culloden and the rout of the Highland Jacobite Army, he found himself in a city that needed to come to terms with a bloody catastrophe. Edinburgh had not covered itself with glory during the rising of 1745. The battle of Prestonpans was a debacle which bespoke either incompetence or cowardice. Resistance in the town itself had confined itself pretty much to the Presbyterian clergy's refusal to preach during the Jacobite occupation. The Scottish Whigs needed to disprove to themselves and to their English political allies the widespread belief that "a Scot is a natural hereditary Jacobite."² The Scottish Whigs consequently went out of their way to distinguish themselves from their barbaric Highland countrymen. One Whig apologist claimed that the Highlanders were: "confined to a particular corner of the kingdom, speak a different language, and differ as much in their manners and customs from the rest of Scotland as the Chinese does from the Turks. They are so much a different people, that they agree in nothing, but in being inhabitants of one island and subjects to the same government."³

Having endured the odium of the Jacobites at Oxford, Smith had to endure the suspicions of the Hanoverian occupying powers in Edinburgh. His consolation was that he was not alone, as he had been at Oxford. Smith, who bragged that his family had kicked the pope and the pretender out of Scotland, now joined forces with the Whig magnates who were eager to assure Scotland's conquerors that the supporters of Kirk and commerce were still reliable allies in support of the Hanoverian cause.

Henry Home, a Whig magnate known as Lord Kames and a cousin of David Hume and a pillar of the Scottish Enlightenment, was "instrumental in launching Smith's career."³ Early in 1747, Home arranged to have the young scholar deliver two lecture series in Edinburgh, one on rhetoric and one on jurisprudence. Smith and Home "had plenty in common intellectually" because both men "wanted to develop a science of man based on the study of the sentiments and affections."⁴ Smith the orphan could not believe in a "fatherless universe" because of the assistance he had received throughout his career from older men like Home, to whom he attributed "the fecundity of intellectual life in contemporary Scotland," when he claimed that, "We must every one of us acknowledge Kames as our master."⁵

The "core intention" behind the lectures Smith gave at Home's behest was

familiarizing young Scottish professionals with English literature, and helping them communicate effectively in standard English. This can be viewed as an attempt to make English culture more understandable and therefore acceptable to the Scots intelligentsia, thus help them function in the unitary state created by the parliamentary union of 1707.⁶

Home was evidently pleased with Smith's performance during the initial lectures because the series was repeated in 1749 and 1750, when it "attracted important members of the literati."⁷ Home tapped Smith for the job because he had shown promise as a philosopher, and because "the teaching of moral philosophy was at the core of the Scottish university education of Smith's time, and of the Scottish Enlightenment as a movement. . . ."⁸

Like Glasgow, Edinburgh had become prosperous as a result of the Act of Union and the free access to English markets at home and abroad which it provided.⁹ The rising of 1745, which came as a culmination of 57 years of off-and-on armed resistance, showed that opposition to the Whig regime was deep-seated and bound up with "the most turbulent and inaccessible region of the country," which had become "a natural breeding ground for resistance to government."¹⁰

The bloody aftermath of Culloden left the Scotch Lowland Presbyterian Whigs with a burden of guilt which Calvinism could not extirpate. Good works were needed; philosophy was the answer. Since man had no innate nature and was simply the sum of his experiences, and since the mind had no access to immutable principles of practical reason and had to cobble together a world from that same sum of experiences, the philosophy which allowed the rulers to change those experiences could also change the man. Social engineering was thus born out of the conjunction of Scottish philosophy and the exigencies of Scottish political reality.

Smith was just one of many philosophers whom the Whig oligarchs sent off to bring about the social engineering of the defeated Jacobites in the wake of their defeat following the rising of '45. Adam Fergusson was another, and his career makes even clearer than Smith's lectures did the connection between Cumberland's army of occupation and the social engineering which followed in the wake of its victory. Adam Fergusson was a Scottish philosopher who had been assigned to a unit of Highland soldiers encamped near London over the winter of 1745 in order to instruct them in the Gaelic tongue. As Plank puts it, "Britain's soldiers in 1745 were fighting in the presence of philosophers."¹¹ Lieutenant General Humphrey Bland, who commanded Cumberland's cavalry during the Battle of Culloden, made the same point when he claimed that he made it his habit to "call philosophy to my aid" in martial affairs.¹² Bland saw the potential for com-

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binning military operations and social engineering while serving under Cumberland in Holland, where he noticed that “philosophy,” i.e., social engineering based on environmentalist, behaviorist principles could eliminate the “natural inclinations” and “native characteristics” that characterized the “different nations” which made up the Dutch army. If it worked in Holland, military-based social engineering could also work among the Episcopalian and Catholic congregations in the Highlands which were “the source and nursery of all the evils that befall this land” because they instilled “into the minds of the people Popish principles, contempt of the law, and disobedience to His Majesty’s mild and merciful government.”¹³ Bland hoped to suppress theft as an incitement to industry and commerce “for when people can’t steal, they will be under a necessity of supporting themselves and families by their own labor.”¹⁴

After his military service in the suppression of the rising of ’45, Fergusson, who was also a Presbyterian minister, was appointed professor of moral philosophy at the University of Edinburgh. In addition to teaching soldiers Gaelic, Fergusson introduced them to the main tenet of social engineering, namely, “the theory that children derive their political values from their social environment, and that this process begins at the moment of birth.”¹⁵ The soldier students eagerly embraced Fergusson’s ideas and became fervent disciples of the idea that the army was engaged in a noble, long-term project “of enormous magnitude,” namely, the transformation of the Highland Jacobite barbarians into civilized Presbyterian capitalists. Social engineering was being proposed as the humane alternative to ethnic cleansing: “It is not to be supposed, I hope, that we are to banish, transport, or exterminate all of the natives,” one philosopher opined, “we are only to get a few intelligent and industrious farmers and masters of manufactures with some servants and journeymen, and a few who understand fishing and curing of fish, to go and settle there, in order to serve as examples to the people of the country, and to instruct and employ such of them as may incline to be industrious.”¹⁶

The purpose of social engineering was the inculcation of habits of industry among the indolent and superstitious Highlanders through education, which in turn would bring about the creation of a docile work force:

Forbes. . . cited changes that he believed had occurred on the eastern and southern fringes of the Highlands. In those places, he maintained, “within memory, the inhabitants spoke the Irish language, wore the Highland dress, and were accustomed to make use of arms.” Now, he suggested, “after the accidental introduction of industry,” the people spoke “a sort of English,” wore “Lowland clothing,” and took up the plough in the place of weapons.”¹⁷

If, as Adam Smith would later famously claim at the beginning of *Wealth of Nations*, labor was the source of value, the first question in the

minds of the Whig oligarchs who supported Cumberland's occupying army was how to control labor. The answer, then as now, was education. Forbes recommended that "the government establish schools near its military outposts, including 'spinning schools to draw the idle females of this country into manufacture.' Once those schools were in place, he predicted, weavers would come."⁸

The schools established in the Highlands in the wake of Cumberland's military conquest would serve the same goals that similar schools would serve in Afghanistan in the wake of the American conquest there two and half centuries later. After the army had invaded the country and defeated it militarily, the social engineers who were its inevitable camp followers would establish schools because schools were the best available means to pacify a defeated population over the long term. In Scotland, government-sponsored Presbyterian schools "would aid current law enforcement, promote commerce, and gradually undermine the traditions of Highland life."⁹

The schools which the soldier philosophers erected on behaviorist principles in Scotland could only be successful in promoting industry and commerce if they kept the children who attended them away from the pernicious influence of their Catholic parents:

The founders of the [sic] Ireland's charter schools had sought to erect an educational system based loosely on the ideas of John Locke. Proceeding on the premise that children acquire their fundamental character from the environment, the designers of the curriculum wanted the schools to operate year round, 24 hours as day, to keep the students permanently away from their parents and home communities. Children who returned to their parents at night . . . were considered vulnerable because their families and priests would have "too frequent access to them" and "draw them back to Popery." The founders of the schools therefore sought to direct children away from their parents at the end of their school years "by transplanting the children either to other schools or to services remote from the influences of their Popish relations."¹⁰

Adam Fergusson, who instructed Cumberland's troops in Gaelic and the principles of social engineering, was sent to Ireland to see how the charter schools functioned there. Fergusson gave a generally favorable report but related that the "schoolmasters complained that it was difficult to recruit children, 'because the Papists are adverse to the design.'"¹¹ Fergusson's caveat led to one of the most ambitious proposals for the Scottish Highlands, one which involved a parliamentary outlay of 10,000 pounds per year to subsidize "5,000 boys and girls with the masters necessary to teach them." The children would be kept in boarding schools from the age eight to fifteen, "without ever seeing their parents." During that time, "they could be taught to speak and read English, the principles of Christianity with a strong bias to the Whig and Protestant side, and the easy parts of

manufacture and agriculture.”²²

The purpose of public education in the Highlands was introducing children to “Presbyterianism, industriousness, and the English language.”²³ The ultimate purpose of social engineering, however, was the theft of labor, which becomes clear when we learn what is to happen to the young scholars once they graduate: “When their time is out, they are put apprentice to Protestant tradesmen, or to service under indentures.”²⁴

Commerce, the Scottish Whigs could proffer, was a humane alternative to being hanged drawn and quartered or being raped or transported to the colonies to die of overwork. And this alternative fit well into the mood of the times: “In the aftermath of the ’45 rising, leaders of Scottish society were stressing to the youth of the country the importance of that ‘polite and useful learning’ appropriate for gentlemen and necessary for the practice of their professions, also for attracting them to English culture.”²⁵

In order to attract the youth of progressive, Presbyterian Scotland to “polite and useful” learning, Smith drew on his unhappy experiences at Oxford, where the curriculum was still bogged down in the cobwebs of Ontology and the outmoded categories of Aristotelian Scholasticism. In its place, Smith cast the New Rhetoric as the happy conjunction of Newtonian physics, Lockean philosophy, and Sentimental Morals. This combination of the best elements of the Scottish Enlightenment was delivered by a teacher “with a command of southern English,” to Scots who “were anxious to acquire this skill, to get on in an imperial world administered from London.”²⁶

Recruited by Whig oligarchs of the stature of Lord Kames to be part of the re-education process “the government had undertaken” to “restructure the legal institutions of the region and the customs of the inhabitants,” Smith embarked on a career as a young philosopher who felt he could become “one of the heralds of a new era in the history of civilization” if he played his cards right. That meant taking a “classic ancient subject” like moral philosophy and placing it “on modern philosophical foundations,” which entailed using “Hutcheson, Hume and Condillac as his modern guides and an analytical method developed by Hobbes, Newton and Hutcheson from the principles of Euclidian geometry to establish his own philosophical voice.”²⁷

In 1750, while giving his lectures on Rhetoric in Edinburgh, Smith met Hume in person for the first time. Hume had returned to London after serving on diplomatic missions to the courts of Vienna and Turin and was whiling away his time at the family home at Ninewells, Berwickshire, a residence which allowed him to visit Edinburgh on occasion, where “he may have heard Adam Smith lecture.”²⁸ The fact that the two men could now meet and exchange ideas in person on a daily basis only intensified

Hume's influence over his protégé. In formulating Rhetoric as the conjunction of the new science, the new philosophy, and the new morals, Smith was bringing to completion "the programme for the 'science of man' which Hume had announced in the *Treatise*."²⁹

Smith also picked up a penchant for laissez-faire economics and an antipathy to the mercantilism of Colbert from Hume, who had spent years as a diplomat in France, where he had become familiar with the thinking of Quesnay and the Physiocrats. In the eyes of Smith and Hume, Colbert made the mistake of wanting to direct industry and commerce, "instead of allowing every man to pursue his own interest in his own way, upon the liberal of equality, liberty, and justice."³⁰

Quesnay was a physician. Indeed, he was physician to the king of France. As a result, he quite naturally viewed the economy as analogous to the human body, whose metabolism was based on balance. According to this view, any intervention into the economy was disruptive and to be avoided, because the economy, like the body, could regulate itself. Smith learned from Hume's redaction of the physiocrats that anyone who interferes with "natural harmony" disturbs the order of the universe. "Projectors," Smith wrote, "disturb nature in the course of her operations in human affairs, and it requires no more than to let her alone, and give her fair play in the pursuit of her ends that she may establish here own designs."³¹

Adopting the self-regulating nature of the economy based on Hume's reading of Quesnay and the physiocrats, Smith constructed a complementary theory of the state. Since "unnatural" government interventions thwart a country's economic growth,"

little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point are unnatural, and to support themselves are obliged to be oppressive and tyrannical.³²

In a paper which he gave in Glasgow in 1755 after he had been made professor of moral philosophy there, Smith indicated that he had arrived at these ideas by the time he gave his Edinburgh lectures. "They had all of them been the subjects of lectures which I read at Edinburgh the winter before I left it" [i.e., 1750-1].³³ Smith's debt to Hume was evident in his first paper to the Glasgow Literary Society, which was titled an "Account of some of Mr. David Hume's Essays on Commerce."³⁴

Like his mentor David Hume, Smith recognized early on that "commerce" would play a crucial role in the social engineering which the Whig oligarchs wanted to impose on the Highland Scottish people in the wake of the failed rising of '45. Commerce was an integral part of the universe

which Newton appropriated from Empedocles because that universe was prosperous and efficient. The universe was a “complete machine,” which meant that it functioned “as a coherent system governed by general laws, and directed to general ends, viz. Its own preservation and prosperity and that all of the species that are in it.”³⁵ Rhetoric was seen as a form of economics in which “Authors and orators should be thought of as entrepreneurs playing the literary market.”³⁶

The relationship between economics and moral philosophy got reversed under Smith’s direction. At the beginning of the 18th century, economics was considered a branch of moral philosophy, but by the end of that century, largely because of Smith’s writings, moral philosophy had become a branch of economics. The universe was ultimately a mechanism created for production, a concept that was incorporated into the phrase “the system,” which gained currency during the emergence of the industrial revolution in Britain during the late 18th and early 19th centuries. “The system” came from Newton and Empedocles, but it was ultimately an economic concept now known as Capitalism and implemented in concrete form in the factories which sprang up in England as part of the Industrial Revolution. That system involved:

the mechanized production unit in which all the parts of the plant had to co-operate. Thus in textile production, the spinning mill was organized to accommodate “the system,” so that preparatory machines and spinning frames did not outstrip or fall behind each other, but were balanced in an economic way to produce weight of yarn or a limited range of weights.³⁷

Economics played a role in the reform of the Highlands in less metaphorical ways as well. Economic growth would promote political stability because it would eliminate feudal bonds and “place the region’s economy on a cash basis.”³⁸ In addition to that, reform would

place all commercial actors on an equal footing, and to put an end to the traditional practices of barter and the reciprocal exchange of services, practices that seemed, historically to strengthen the clans. Policy makers were particularly concerned to eliminate service requirements from the leases, because demanding service from one’s tenants was seen as a demeaning expression of hierarchy and an inefficient allocation of energy. Furthermore, in times of crisis, calling one’s tenants physically to one’s home was often the first step toward mobilizing men for military action. The justifications offered for these reform proposals often mixed economic and political interests. Nearly all of the reformers assumed that economic growth would promote political stability because young men with good economic prospects were unlikely to take the risk of going to war.³⁹

The hope of the Scottish philosophers was that the process of pacifying the Highlands could be better addressed by encouraging civility, commerce and economic improvement than by the use of military force. “The civilizing powers of commerce” appealed to an audience whose conscience

was burdened by the brutal way in which Cumberland had put down the Jacobite Rising of 1745. Smith got the phrase from Hume and “decided to present his moral philosophy as a means of providing a philosophical defence of Hume’s claim that commerce had the power to improve and perfect the human character. It was a claim that Hume had made in *Political Discourses* of 1752,” which were “discourses on commerce, money, interest, balance of trade, etc.”³⁰

Reacting to the Mercantilists’ over-emphasis on gold as wealth, Smith following Hume’s example, wanted to show that economic questions were, properly speaking, questions about labor and the way it was deployed, and that these in turn were based on questions about the principles of human nature. As he put it, “everything in this world is purchased by labor, and our passions are the only causes of labor.”³¹

This meant that the wealth and power of any state ought to be measured in terms of the quantity and quality of its labor force and not in terms of gold and silver reserves. Money, Hume observed, “is not properly speaking, one of the subjects of commerce, but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade: it is the oil which renders the motion of the wheels more smooth and easy.”³² Thus, the primary duty of the sovereign in matters of commerce was to facilitate the circulation of money in ways which would stimulate trade and manufactures and enhance the quantity and quality of the nation’s workforce.³³

Locke, Hume, and Smith were of one mind in claiming that labor, not gold and silver, was the cause of a nation’s wealth. That being granted, how is it possible that the economic system erected on their principles, which has come to be known as Capitalism, has a history of treating labor with contempt? The short answer to that question is property. Smith got his idea of property from Hume, who in turn got it from Locke; both Hume and Locke felt that the principal “real” right was property.³⁴ In Smith’s economic system, labor is ancillary to property:

Smith’s jurisprudence was derived from a theory of rights borrowed from Hume. Hume had shown that nearly all of our understanding of rights was derived from our experience of living in property-owning societies and that it was on this that our understanding of the necessity of government, morality and improvement was based; in other words, property was the mother of the civilizing process.³⁵

It would take a century of strife and revolution before property got resolved into “congealed labor.” For the moment labor got submerged in property, which became the prime engine of the “the Civilizing powers of commerce.”³⁶

Property granted legitimacy ipso facto, a neat philosophical move which skirted the most contentious (and most suppressed) issue in Eng-

lish history, namely, how that property was obtained in the first place. By severing property from labor, Hume eliminated any discussion of the main source of wealth among the English ruling class, namely, theft, beginning with the theft of Church property which went by the name of the Reformation to the acquisition of enormous amounts of gold via piracy on the Spanish main, all the way up to Smith's day when the Industrial Revolution was poised to hijack English labor both at home and abroad. Hume dismissed the idea of legitimacy completely, along with Locke's stop-gap attempt to grant legitimacy to the Glorious Revolution by appealing to the "consent of the governed." This led him to dismiss as an equally groundless fable the social contract, which was based on "the notion that the first societies of property owners had been peaceable societies of farmers."⁴⁷ Hume also challenged "Lockean assumptions that the origins and authority of governments rested on contracts and the consent, tacit or otherwise, of their subjects" as "wildly implausible."⁴⁸

These hypotheses were unnecessary now that Hume had placed his entire political and economic edifice on the firm foundation of property because:

once members of a society had acquired a sense of the necessity of property that they would understand the need to submit to some form of regular government. After all, as Smith put it, property was "the grand fund of all dispute," creating a need for "settled laws—or agreements concerning property" and the means of enforcing them.⁴⁹

The Lowland Presbyterian Scots were all too willing to admit, as one writer put it in 1762 that "We are generally a commercial people," and "The thoughts of great numbers among us move in no very wide circle and never towards Metaphysics."⁵⁰

Hume was clever enough to understand that this philosophical candor would not provide an adequate basis for the Capitalist worldview, which had to be portrayed as benevolent in a way that was appealing to the sentimentality of the age. Hence, his insistence on "the Civilizing powers of commerce." Hume realized that this economic thinking would fail to convince unless he was able to show that commerce and economic progress were ethically beneficent and it was to this task that he was to devote some of his most eloquent and persuasive prose.⁵¹

Industry and commerce not only make us rich; they make us virtuous as well because "the more these refined arts advance, the more sociable men become Thus industry, knowledge and humanity are linked together by an indissoluble chain, and are found, from experience as well as reason, to be peculiar to the more polished, and what are commonly denominated, the more luxurious ages."⁵²

Smith arrived in Glasgow in October 1751 to occupy the chair of moral

philosophy at the university. The collaboration with Hume could have continued on an even more intimate basis because Hume was also being considered for a university position but Smith chose not to support his bid. In a passage which has become an iconic representation of Smith's "prudence," i.e., his concern for his own career at the expense of the career of his friend and mentor, Smith wrote. "I should prefer David Hume to any man for a colleague; but I am afraid the public would not be of my opinion and the interest of the society will oblige us to have some regard to the opinion of the public."⁵³

What else was someone who felt that right and wrong were a function not of conscience but rather of public opinion supposed to say? Hume consoled himself by becoming keeper of the Advocate's Library in Edinburgh in January of 1752, a position which allowed him to write his Whig history of England. Hume seemed oblivious to any betrayal on the part of Smith. Nine months after taking his job as librarian, Hume wrote to Smith asking for feedback on his *Essays Moral and Political*, which Hume was preparing for publication. Hume added that he "many things to communicate" as well as books, "as much as you please" if Smith chose to visit with him in Edinburgh.⁵⁴

Endnotes

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- 3 Nicholas Phillipson, *Adam Smith: an Enlightened Life*, (New Haven: Yale University Press, 2010), p. 72.
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- 40 Phillipson, pp. 137-8.
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- 46 Phillipson, p. 138.
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- 48 Ibid.
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- 53 Phillipson, p. 126.
- 54 Ross, p. 113.

Chapter Fifty-Seven

The French Lose Canada

By the time Cumberland's lieutenant and veteran of the Scottish Wars, Edward Cornwallis sailed into Chebucto Harbor on the Atlantic Coast of Nova Scotia on June 21, 1749, the conflict over who was going to rule North America had been going on for decades.¹ Nova Scotia, along with its French-speaking Catholics and Indian population, had been ceded to England as a result of the Treaty of Utrecht in 1713. But the treaty, no matter what it accomplished in Europe, did not bring peace to North America, where "successive waves of New England soldiers patrolled the Acadian community and engaged in intermittent combat with the French army and its Algonkian and Iroquoian allies" for years afterward.² As part of their efforts to divert France from coming to the aid of the Pretender's cause in Scotland during the Jacobite rising of 1745, the Royal Navy transported an army of New England colonists to Cape Breton Island, just north of Nova Scotia, where they seized Louisbourg, which controlled the approaches of the St. Lawrence River and, therefore, Quebec. The French Navy was forced to divert valuable resources in men and materiel in an ultimately unsuccessful attempt to reinforce Louisbourg's defenders, who as a conditions of their surrender were deported back to France.

The struggle between the Whigs and the Jacobites in Scotland was not simply a civil war. It was that, of course. But the internal struggle over who was to rule the British Isles had international ramifications. It was one aspect of the 126 years of conflict for European supremacy between Britain and France, which began in June 1689 with the War of the League of Augsburg and ended in June 1815 at the Battle of Waterloo.³ Indeed, the struggle between England and France could be seen as part of the larger struggle between Catholicism and Protestantism which began with the English Reformation and the looting of Church property by Henry VIII.

Over time this conflict had changed from a battle over theology to a battle over economics. Both France and England were deeply conflicted over the role which religion would play in the political and economic spheres. Catholicism was compelled to assert its hegemony over the economic sphere in keeping with its traditional view of itself, as Pope Benedict XIV did when he reasserted the traditional teaching of the Church on usury in *Vix pervenit* in 1745. Protestantism, which began in revolution, did not feel similarly bound by tradition. Since all Protestant sects were in effect state churches [or derived therefrom], they projected a view of religion

that had a distinctly nationalist tinge. Since each sect had in effect taken over a country and appropriated its resources in the interests of the revolutionary cadres which ran it, Protestantism became, as in the case of the Presbyterians in Scotland, a combination of language, ethnicity, and commercial interest bound together by a religion which was subservient to class interest, in this instance the Whig revolutionaries who had gained power in 1688. Once the Battle of Culloden resolved the contention surrounding the Glorious Revolution, Protestantism became an economic system with religious trappings, which is precisely how Capitalism is construed in our day. Having subdued the Highland Scots, the Whig Oligarchs were confident that they could now project capitalism outward. The first stop on what would be a centuries-long crusade, culminating in the American attack on Iraq and Afghanistan, was North America.

When Cornwallis arrived in Nova Scotia, he was convinced that his experience subjugating the Highland Jacobites could be transposed to North America. Cornwallis was familiar with the theoretical literature and came to believe that he was "qualified to direct the administration of exotic lands"²⁴ because of the similarities in the populations which needed to be subdued. Like the Highland Jacobites, the Nova Scotians were Catholic savages. There were other similarities, such as "The [Highland Jacobite] soldiers' manner of close combat, their loose-fitting clothing, and their practice of yelling as they ran toward their enemies," all of which linked them in the mind of Englishmen like Cornwallis "to America's native warriors."²⁵ Like Humphrey Bland, Cornwallis was confident that philosophy would come to his aid in bringing the natives around to his point of view. There was no reason why Adam Fergusson's environmentalism would not apply to French Catholic Acadians and Catholic Indians as well as it had applied to the Jacobite Catholic Highlanders of Scotland. The conviction that Scottish philosophy could provide a civilizing influence in North America just as it had done in the Highlands of Scotland was so strong that "almost without pausing for a thought," Simon Fraser

could turn from boasting of his sexual conquests among the Iroquois to recounting daydreams in which he reformed them by placing under the benevolent guise of a Scottish philosopher king. Specifically, Fraser fantasized about making Henry Home, Lord Kames, governor of the Iroquois. "This is the country for a philosopher," he wrote. "What a find for his favorite investigation, the human mind. . . . What is most wanted here is persons to think for the people and to put them in motion."²⁶

This is, of course the same Lord Kames who launched the career of Adam Smith by organizing his lecture series on rhetoric and jurisprudence within months of Smith's return to Scotland in the wake of the defeat of the Jacobites at the Battle of Culloden.

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Corwallis, like the rest of Cumberland's adjutants, who would find themselves continuing his Scottish campaign in North America, was eager "to think for the [native American] people and put them in motion."⁷ As in Scotland in the aftermath of the rising of 1745, the Presbyterians were going to serve as the agents who were to implement the Scottish Enlightenment's philosophy of social engineering in North America. There were those who indicated that the opposite might have been the case, and that the colonial policy implemented during the "Pequot War" in the 17th century had been implemented in Scotland later. William Douglas, a physician from Massachusetts, suggested this hypothesis because of the similarities he saw, specifically:

After killing a large part of the population, and selling others, including children, into slavery in Bermuda, the New England colonists had agreed to a cessation of hostilities with the remaining "Pequot" only "upon condition of their abandoning their name and country." Douglass suggested, "Perhaps some expedient of this nature might be used with regard to some of the incorrigible clans of Highlanders in the northern and western parts of Scotland."⁸

Whoever deserved the initial credit for the philosophy of subjugating intransigent native populations, Douglas suggested that the American colonists might learn from the programs which the SSPCK had instituted in Scotland, where the Presbyterians were busy "sowing the seeds of Christianity, loyalty, and industry."⁹ Presbyterian evangelization from the Presbyterian included ethnic cleansing. During the spring of 1746, Cumberland

endorsed the idea of transporting whole communities of Highlanders across the ocean. Cumberland developed this scheme after consulting with several of his supporters in the Highlands, including Duncan Forbes and Alexander MacDonald of Sleat. . . . Cumberland recommended that "whole clans be transported," including "the entire clan of the Camerons," and Part of the "MacDonalds."¹⁰

Cumberland could propose such drastic measures with a clear conscience because he considered them financially beneficial. After transportation to the West Indies, "the exiled Highlanders. . . might enrich themselves, generate profits for merchants, and increase British trade."¹¹ Transportation to the colonies could be a positive experience if it transformed the ethnically cleansed Highlanders into capitalists. The same principles applied to North America, where "Veterans of Cumberland's Scottish campaigns. . . sought to promote civilization as they understood it by encouraging immigration, building infrastructure, promoting trade and industry, and limiting the power of Catholics and the Catholic Church."¹²

Like Cornwallis in Nova Scotia, the British colonists in North America saw a link between the pacification of the Highland Scots and the subsequent pacification of the French and Indians in Canada. After Cumberland defeated Charles Edward at Culloden, many British colonists in North

America rejoiced because they believed that the Jacobites, had they won, would have ceded large swaths of colonial territory to the Catholic French.¹³ Benjamin Franklin claimed that if the Jacobites had prevailed, "we were all to be converted to the Catholic faith."¹⁴ Charles Chauncy, the Puritan divine from Boston, expressed similar fears when he told his congregation that "our fathers here in New England" had "groaned under the oppressive burden" of "Popish and tyrannical power" and that they would do so again if the Stuarts regained the throne.¹⁵

The notion of the British Empire as a bulwark against "Popish and tyrannical power" loomed large in Cornwallis's mind when he arrived in Nova Scotia as a representative of Cumberland's army. He believed that soldiers could take a leading role in reforming society by implementing the thoughts of Scottish philosophers like Adam Fergusson and Frances Hutcheson. The goal of imperial policy should be the promotion of cosmopolitan, industrious, Protestant populations. Cornwallis, as a result, set out to create:

a culturally integrated province, where Protestant immigrants could mingle freely with French-speaking Catholics and introduce them gradually to new forms of worship and standards of piety, new ways of commerce, and new political alliances.¹⁶

If introducing the American natives to "new forms of worship and standards of piety" was his goal, Cornwallis and his Presbyterian propagandists were 138 years too late. By the time he arrived in Nova Scotia, the French Jesuits had already converted the Indians to Catholicism as the result of efforts that began in earnest when Father Le Jeune embarked on the winter hunt with the Montagnais in October of 1633.¹⁷ Francis Parkman, the 19th century American historian, gets to the heart of the difference between English and French colonial policy when he writes that the French, in particular the Jesuits,

studied the nature of the savage and conformed themselves to it with an admirable tact. Far from treating the Indian as an alien and barbarian, they would fain have adopted him as a countryman, and they proposed to the Hurons that a number of young Frenchmen should settle among them, and marry their daughters in solemn form.¹⁸

Unlike the Presbyterians who were brought in to instill the virtues of capitalism among the native population as a prelude to stealing their labor, the French Catholics

had lived closely with the original inhabitants of the lands they colonized, often establishing families with them, worshipping with them, and sharing in a complex, sometimes violent, network of ritualized diplomacy, reprisal, and material exchange. The French in North America, therefore, seemed peculiarly and somewhat mysteriously dangerous.¹⁹

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The English, on the other hand, considered good relations with the Indians ipso facto treasonous:

On several occasion over the previous decades the British had gone to war against the Mi'kmaq while the Acadians continued to fraternize and trade with them. Though few Acadians had taken up arms against the British, Belcher argued that maintaining ties with the Mi'kmaq had been treasonous and that this pattern of behavior revealed the Arcadians' "inveterate enmity to the English." Belcher cited this history along with the Acadians' refusal to acquiesce in the possibility of a military draft, to support his conclusion that the Acadians were "rebels to His Majesty." This was not a judgment issued against individuals, or a sanction based on a specific set of alleged infractions of British law. It was a ruling against the entire people, men, women and children, and it was written to justify an effort to punish and reform them collectively.²⁰

The French were a colonial power every bit as much as the English were, but their methods differed in that that French methods were, in Parkman's words, "consistent with a Christian benevolence."²¹ These methods were widely known, largely because the Jesuit press of Cramoisy had published the Jesuit *Relations* annually, creating the equivalent of best-sellers in the Francophone world from the middle of the 17th to the middle of the 18th centuries. Le Jeune's *Relations* "had been read with avidity,"²² making the Jesuits famous. The Jesuit *Relations* were widely circulated in France, "and in the circles of haute devotion, Canada and its missions were everywhere the themes of enthusiastic discussion."²³

As a result of his winter of hunting moose with the Montagnais, Le Jeune concluded that the Indians would have to be brought into settlements. This was the inception of the idea of the mission to the Hurons. In order to survive the war with the Iroquois, the Hurons would have to be brought into fortresses like those which the Jesuits eventually erected at Pentaguishene near Midland, Ontario on Georgian Bay. There were enormous obstacles, but the Jesuits knew their mission to the Huron was doable because of what fellow members of the Society of Jesus had done in Paraguay. In fact, the Jesuits of North America "looked forward to the day when Canada should be another Paraguay."²⁴ As in Paraguay, the Jesuits had to create settlements if they wanted to preach the gospel, and they had to create an economic system if they wanted to create settlements. And so the Jesuit in Canada, like his brother in Paraguay, became an economist *malgré lui*.

By the time Cornwallis arrived in Nova Scotia to found the town that has come to be known as Halifax, two economic systems were vying for world hegemony: the French system, which was Catholic, and the English system, which was Protestant, and which would come to be known as Capitalism. The principles of the former system decreed that the economy was to be subordinated to religion; the principles of the latter system decreed

that religion was subordinate to economic considerations. The latter system would go on to propose as one of its basic tenets that there should be no moral restraint on economic activity.

Like every European conqueror who arrived in North America, Cornwallis was immediately confronted with a labor problem. He needed to build a fort for protection, a town to house the colony's inhabitants, and, most of all, a trading post, to justify the whole venture economically. And he had roughly four months to accomplish this feat before the bad weather set in and made construction impossible. In order to do this he needed skilled, industrious workers. When Cornwallis arrived, he discovered that the settlers he had brought with him were "poor idle worthless vagabonds" who had come to Nova Scotia only to receive free transportation across the ocean and the subsidy offered by Parliament."²⁵

Unable to rely on the workers he brought with him, Cornwallis then turned to the native population as a source of labor. At this point he ran into another problem. The native population of Nova Scotia consisted of French-speaking Catholic Acadians and Mi'kmaq Indians, and neither group was interested in working for the British newcomers, who had become their rulers because someone in Europe had drawn a line on a map.

And so, as in the Highlands in the aftermath of 1746, the British conquerors turned to social engineering as the solution to their labor problem. The Duke of Bedford argued that the Nova Scotians "could be transformed into useful and loyal British subjects if they were 'intermixed' and made part of a cosmopolitan society."²⁶ The English then separated the French-speaking children from their Catholic parents by enrolling them in the same sort of schools which had been erected in the Highlands:

Since 1746, most proposals for reforming Acadian society had involved placing as many children as possible in families with Protestant fathers, either by promoting intermarriage or by removing Acadian boys and girls from the Catholic families of their birth.²⁷

The Acadians remained uncooperative. In fact the English attempts at social engineering made them more amenable to the speeches of the Mi'kmaq leaders and as a result they moved out of British-controlled territory, thereby making it impossible for the English to turn them into docile cosmopolitans by sending their children to Presbyterian schools. Cornwallis was furious at the French and the Indians, complaining that they had "stirred up His Majesty's subjects [the Acadians] to rebellion."²⁸ In resisting social engineering, the Acadians were guilty of engaging in "an illegal insurrection,"²⁹ from the governor's point of view. This meant that Cornwallis could wage war on the natives without treating them like combatants, a tactic resurrected during the wars which followed the 9/11 attacks in the 21st century: "Cornwallis maintained that if he declared war on the

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Mi'kmaq he would 'own them a free people' and undermine Britain's claim to rule over the colony and its peoples."³⁰

Once it became apparent that the Presbyterians were not going to succeed in the social engineering which was the *sine qua non* of English colonization, the English lost no time in adopting other methods. Loudon, who was Cornwallis's successor as commander-in-chief in Nova Scotia, and like Cornwallis a veteran of the Highland campaign, decided to engage in the ethnic cleansing of the French population, deporting them all to other English colonies. As a result:

In the autumn of 1755, nearly seven thousand Acadians were taken from their homes near the coasts of the Bay of Fundy and transported to English-speaking colonies to the south. The decision to transport the Acadians stemmed from a recognition that the program undertaken by Cornwallis, to surround the Acadians with new settlers and absorb them into a new, cosmopolitan colonial society had failed. On the other hand, transporting the Acadians constituted a last, slightly desperate attempt to achieve the same goal. The colonies receiving Acadian exiles dispersed them widely in the hope that they would learn English from their new neighbors and gradually adopt English-colonial ways.³¹

Loudon insisted that any protests be delivered to him in English. When the Acadians refused to submit their grievances in any language other than their native French, Loudon had the "ringleaders" arrested and shipped off to England for trial.³²

At around the same time that the ethnic cleansing of the Acadians took place, scalping became an official policy of the Massachusetts Bay colony, at the behest of Governor William Shirley, who "had encouraged the colonial authorities to offer bounties for the scalps of men, women and children belonging to enemy tribes."³³ Cornwallis had anticipated Shirley's move by six years, offering bounties on Indian scalps from the moment he set foot on Nova Scotia. Cumberland's officers had no qualms about paying bounties for scalps because they "identified the native peoples of America as savages and assumed without qualms that they could fight native warriors unconstrained by the rules of war."³⁴ The language Cornwallis had used to demonize Scotland's Jacobite Highlanders was now used to stigmatize the Mi'kmaq, who "ought to be looked on as rebels to His Majesty's government, or as so many banditti, ruffians, and treated accordingly."³⁵ Because of their association with the Mi'kmaq, the French Acadians could be "stigmatized as savages" as well and then subjected "to indiscriminate violence had long been considered beneath the standard of decency."³⁶

In 1755 Pennsylvania's governor followed Governor Shirley's example, and the Quaker state started offering bounties for scalps as well:

Specifically, he promised to pay 150 pieces of eight for the scalps of "Delaware" (Lenape) men over the age of 12, and 50 pieces of eight for women over 12 and

younger boys and 50 piece of eight for the scalps of girls eleven years or younger.³⁷

The governor's gesture received the endorsement of Benjamin Franklin, "who belonged to a commission appointed to direct Pennsylvania's war effort against native groups."³⁸

The abrupt change in policy from the carrot of Presbyterian schools and promotion of commerce to the stick of ethnic cleansing and scalping flowed naturally and consistently from the "philosophy" which the generals imbibed from the savants of the Scottish Enlightenment.

In an exchange of letters which took place during March of 1740, which is to say, before the Whig conflict with the Jacobites had reached its crisis point, Francis Hutcheson and David Hume, Adam Smith's main mentors, discussed the origins of morality. Hutcheson was appalled at what he considered Hume's skepticism and atheism, but in the course of the exchange it became clear that Hume was only being more consistent in working out the implications of principles which Hutcheson had already articulated. "Morality," Hume wrote to Hutcheson, "according to your Opinion as well as mine, is determined merely by Sentiment. . . ."³⁹ Hutcheson was forced to admit not only that "The true origin of morals" is "the nature and force of sympathy,"⁴⁰ but more importantly, all of the implications which flowed from that admission. Sympathy "produces our sentiments in all the artificial virtues," exemplified by "justice, allegiance, the laws of nations, modesty, and good manners," which are represented as "mere contrivances for the interest of society."⁴¹ Hume would summarize those implications in his *Enquiry Concerning the Principles of Morals* when he wrote that "public utility is the sole origin of justice."⁴²

Loudon, Cornwallis, and Bland were soldier philosophers who were dedicated followers of the Scottish Enlightenment. Their first preference in dealing with groups in need of reform was social engineering of the sort brought about by the SSPCK. If the native populations proved resistant to the advantages of "philosophy," however, it meant that they lacked both sentiment and sympathy, which were the "sole origin" of notions like justice. If the Acadians or the Highlanders or the Mi'kmaq lacked sentiment and sympathy, they could safely be denominated as "savages," and treated accordingly, which is to say, in a manner where the normal rules of warfare among civilized peoples did not apply. Since "public utility was the sole origin of justice," there was no higher court of appeal. There was no "synthetic a priori" proposition that applied here. There was no universal norm of justice based on the universally applicable tenets of practical reason. There was sentiment or there was lack of sentiment. The surest sign that native peoples had "sentiment" was their adoption of the values of the conquerors, namely, the English language, Presbyterianism and commerce, all of which

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taken together came to be known as capitalism.

The main difference between the French approach to colonization and the English approach was economic. Parkman points this out by describing the attitude of the partners in the Montreal settlement, who "mutually bound themselves to seek no return for the money expended. Their profit was to be reaped in the skies, and indeed there was none to be reaped on earth."⁴³ "None of the ordinary motives of colonization" figured in the French colonial venture in North America. "It owed its conception and its birth to religious zeal alone."⁴⁴

Parkman ascribes various reasons for the failure of the Jesuit missions to the Huron and the subsequent effect that had on France's dream of a North American colony. Unlike the English, who were glad to get rid of religious enthusiasts and heretics like the Puritans and the Pilgrims by shipping them off to the colonies, the French allowed "none but good Catholics" to engage in the colonization of North America, even though "the Huguenots would have emigrated in swarms" if they had been permitted to do so.⁴⁵

Compared to their Puritan counterparts to the south, the French Catholics were doubly disadvantaged, because "the best part" of Quebec's "feeble population . . . was bound to perpetual chastity"; whereas "the Puritan . . . held it a duty to labor and to multiply; and, building on the Old Testament quite as much as on the New, thought that a reward on earth was well as in heaven awaited those who were faithful to the law."⁴⁶

Religion and demographics certainly contributed to the decline of the French colony in North America, but the real reason for its failure lay elsewhere, according to Parkman. "The cause of the failure of the Jesuits is obvious. The guns and tomahawks of the Iroquois were the ruin of their hopes."⁴⁷ Parkman then tries to put a metaphysical spin on the issue by claiming that "Liberty may thank the Iroquois."⁴⁸ Parkman is thankful because otherwise "the valleys of the Great Lakes and the Mississippi" would have been "ruled by priests in the interests of Catholicity and of France."⁴⁹

Conspicuous by its absence in Parkman's account is the role which English savagery played in the demise of French aspirations. That savagery found its primary expression in the economic sphere. The sale of firearms led to the defeat of the Jesuits, but it was under the guise of promoting commerce that the English arrived in North America in the first place. Promotion of commerce was the ultimate justification of every atrocity from the ethnic cleansing of the Acadians to the bounties on Indian scalps.

After a wide detour into Whig history, Parkman finally gets around to admitting that the ultimate reason for the defeat of French colonial hopes in North America was economic. The relations of the English and Dutch to the Indians were exclusively commercial; the relations of the French to the

Indians were primarily religious. Those commercial dealings would have serious consequences for the French. The Jesuit mission failed because the English and the Dutch sold guns to the Iroquois. They did this because, according to the tenets of Protestant economics, moral considerations should not trump economic opportunities. This was the gospel of commerce which the Presbyterians had preached in Scotland and the one which Cornwallis sought to introduce to the Acadians and Mi'kmaq of Nova Scotia.

Both the Dutch Calvinists and English Presbyterians were represented at Fort Orange (now Albany, New York), the trading post which was responsible with supplying the Iroquois with firearms. According to Parkman, "The Mohawks, the most easterly of the Iroquois nations, had among their 7 or 800 warriors, no less than 300 armed with the aquebuse, a weapon somewhat like the modern carbine."⁵⁰ This combination of firearms and ferocity gave the Iroquois "an advantage over the surrounding tribes which they fully understood."⁵¹

Parkman portrays the conflict between the English and the French in North America as a contest "between Liberty and Absolutism":

The contest on this continent between Liberty and Absolutism was never doubtful; but the triumph of the one would have been dearly bought, and the downfall of the other incomplete. Populations formed in the ideas and habits of a feudal monarchy, and controlled by a hierarchy profoundly hostile to freedom of thought, would have remained a hindrance and a stumbling block in the way of that majestic experiment of which America is the field. . . . The Providence of God seemed in their eyes dark and inexplicable; but from the standpoint of Liberty, that Providence is as clear as the sun at noon.⁵²

In a sense Parkman was right, but the contest wasn't between liberty and absolutism. It was between liberty and license. The real issue was the status of practical reason or morality. According to the French Catholic view, economics was subordinate to religion. The opposite was true of the English system, which claimed that religion was subordinate to economics. Capitalism, according to Parkman, proved its superiority in the battle for North America by showing that it could operate more effectively if no moral restraint were imposed on economic dealings. The same would prove true for warfare.

In 1756 this fundamental economic conflict led to a war between the French and the English over which economic system was going to rule North America. At the beginning of The Seven Years' War, Pitt decided that the French were most vulnerable in North America and once again the Crown turned to the lieutenants who had served Cumberland in the subjugation of Scotland as its agents. The choice was obvious because Pitt felt that the British colonists in North America were facing the same adversary that the government's forces had faced in Scotland in 1745, a coali-

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tion of the French and traitorous British subjects, vaguely identified as “the Common enemy of our Peace.” In May 1756 Aeneas MacKintosh assembled the freeholders of Inverness and had them endorse a petition to George II which praised Cumberland’s 1746 military campaign, the subsequent trials and punishment of the Jacobite prisoners, and the investments the government had made since that time for “training up even the lowest order of the inhabitants [of the Highlands] to industry”⁵³ as the surest way to defeat the French in Canada. MacKintosh felt that the Whigs’ defeat of their internal enemy in Scotland allowed them to project power abroad:

Strengthened politically by their operations in Scotland, the leaders of the army could devote greater resources to the defense and expansion of the empire. They sought to consolidate control over marginal territories overseas by promoting Protestantism, commerce, legal reform and the use of the English language. After the resumption of warfare in 1754, they turned their attention to the French in North America, and laid much of the groundwork for the conquest of New France.⁵⁴

The conflict leading up to the French and Indian War of 1756 began in 1754 when George Washington attacked a French settlement on the Ohio River. George Washington’s skirmish with the French near the Ohio River in the summer of 1754 brought Cumberland out of retirement, but it did little to change the course of the war, which the British forces began losing from the outset, when

General Braddock marched his regiments into an ambush in the forests of western Pennsylvania in the summer of 1755. He was killed and his soldiers retreated in disarray. In Britain, this outcome was wholly unexpected, and it did not take long before Braddock’s defeat was publicly compared to the Battle of Prestonpans. Braddock and his men had been attacked with unexpected quickness by an apparently savage enemy. Most of the attackers were native warriors, and the soldiers had panicked and run. According to some observers the event proved that the army lacked discipline.⁵⁵

Throughout 1756 the French maintained their initiative by establishing a fort at Ticonderoga and then laying siege to and capturing Fort William Henry on Lake George one year later, an event described in James Fenimore Cooper’s novel, *The Last of the Mohicans*.⁵⁶

The British reversed this slow slide into defeat with one decisive battle, James Wolfe’s siege and conquest of Quebec. Like Cornwallis and Loudon, Wolfe had served under Cumberland in the 1746 campaign against the Jacobites in Scotland. The account of Wolfe as the magnanimous victor in the Battle of Culloden⁵⁷ is belied by other sources which have him giving no quarter, saying: “We had an opportunity of avenging ourselves for that and many other things, and indeed we did not neglect it, as few Highlanders were made prisoners as possible.”⁵⁸ Wolfe supported Cumberland’s policy

of attacks on civilians including starving them and raping their women as a way of psychologically distracting the Jacobite soldiers into deserting the field of battle:

Looking back on the campaign nine years later, James Wolfe proudly recalled the efficacy of the government's tactics. "A body of troops," he wrote, "may make a diversion by laying waste a country that the male inhabitants have left to prosecute rebellious schemes. How soon must they return to the defense of their property (such as is it), their wives, their children, their houses, and their cattle!"⁵⁹

Like Cornwallis and Loudon, Wolfe fancied himself a philosopher in the Scottish mode. "Within the influence of our happy government," Wolfe claimed, "all nations are in security." The British, he asserted, could harm no one because "a free people cannot oppress."⁶⁰ Ever the philosopher, Wolfe "initially viewed the settlement and fortification of Nova Scotia as part of a larger campaign, which he described as "the propagation of freedom and truth."⁶¹ As if to show his troops that he harbored sentiments worthy of a Scottish philosopher, Wolfe recited Gray's "Elegy Written in a Country Churchyard" on the eve of his biggest battle, adding "Gentlemen, I would rather have written that poem than take Quebec tomorrow."⁶²

Since sentiment in the view of the Scottish Enlightenment was the source of morality, and not vice versa as in the traditional science of practical reason, poetic effusion and war crimes could nestle side by side without the vaguest hint of self-contradiction or hypocrisy. Prior to his effusions on Gray's *Elegy*, Wolfe had informed his adjutant, "If, by accident in the river, by the enemy's resistance, by sickness or slaughter in the army, or, from any other cause, we find that Quebec is not likely to fall into our hands (persevering however to the last moment), I propose to set the town on fire with shells, to destroy the harvest, houses and cattle, both above and below, to send off as many Canadians as possible to Europe and to leave famine and desolation behind me; but we must teach these scoundrels to make war in a more gentleman like manner."⁶³ Wolfe had learned his lessons on how to make war against a civilian population in Scotland, but the principles which Wolfe applied to the siege of Quebec would find their fulfillment in the firebombing of Dresden almost 200 years later:

British missiles set the city of Quebec on fire on July 16, 1759; it would burn again on at least three occasions. In early September, Wolfe reported that the town was "totally demolished, and the country was in a great measure ruined."⁶⁴

Wolfe claimed that "American war was different from all others, and must be carried on upon the principles which our enemies have thought fit to establish,"⁶⁵ but not even the Iroquois carried on savagery of this magnitude. At another point Wolfe told a group of civilians that "he was sorry the garrison had surrendered so quickly because with one more day of bombardment the British might have done considerably more damage."⁶⁶

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Montcalm, the French defender of Quebec, tried to play a waiting game against Wolfe, hoping to hold out until the onslaught of winter ended any possibility of further military engagement. If Quebec could make it until the spring, there was a good chance that France and England would sign a treaty ending the war. Faced with an ever-narrowing window of opportunity, Wolfe decided on a bold amphibious assault which involved scaling the cliffs which rose up from the banks of the St. Lawrence west of Quebec during the early morning hours of September 13, 1759. Wolfe then attacked the French garrison from the rear and defeated them on the Plains of Abraham in a 15-minute battle that quickly turned into a rout. Wolfe received three musket wounds during the brief skirmish and died on the field of battle, but his legacy lives on wherever men of sentiment use "philosophy" to justify war crimes. Like a true Scottish philosopher, Wolfe decried "the inhuman practice of scalping, except when the enemy are Indians."⁶⁷ One acquaintance wrote admiringly of Wolfe that, "Wherever he went with his troops, desolation followed."⁶⁸

As some indication that America was destined to follow in the footsteps of the British Empire, Benjamin Franklin supported Wolfe's policies. Like Wolfe, Franklin supported the colonial policy of offering bounties on scalps. There is no record of Franklin's position on the British policy of rape, which "gradually, as it had in the Scottish Highlands . . . became an illicit instrument of policy . . . part of the British army's arsenal against an enemy society."⁶⁹ But, tactics aside, Franklin was in agreement with the general strategy of military conquest followed by social engineering.

Endnotes

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Chapter Fifty-Eight

The Suppression of the Jesuits

After nearly two centuries of undeclared warfare over boundaries between their two countries that ranged anywhere from the heart of impenetrable jungles to the middle of the Atlantic Ocean, Spain and Portugal decided to settle their differences, and after three years of negotiations signed the Boundary Treaty in Madrid on January 13, 1750.¹ The impetus for the treaty came from King Ferdinand VI of Spain and his Portuguese wife, Maria Barbara. Ferdinand wanted peace, but the noble nature of his intentions was not matched by an equally acute mind, and he proved himself incapable of seeing behind the machinations of his ministers, whose intentions were anything but peaceful.

No one epitomized the machiavellian ministers who saw the treaty as an opportunity to advance a hidden agenda better than Sebastiao Jose de Carvalho e Melo, later known as the Marques de Pombal, who was appointed prime minister of Portugal in the same year that the treaty was ratified and put in charge of its implementation.

Pombal had served as the Portuguese ambassador in London before King Jose I appointed him prime minister. The official history of Freemasonry in Portugal claims that while serving in London Pombal “frequented aristocratic circles very close to the Grand Lodge of England” but then adds disingenuously that “no documental [sic] proof is available to show whether he became a member there.” Since the Portuguese Masons named a lodge (Loja Luz Do Oriente No. 80: Marquis de Pombal) in his honor and claimed “The Respectable Lodge Marquis de Pombal has been a benchmark in the spreading the word of the Freemasons along the lusophone world ...,” there seems little doubt that he was one of them.³ Reading between the lines, it seems clear that Pombal joined the Lodge while serving as Portuguese Ambassador in London and thereafter served as a covert agent of Whig influence. As an official representative of an officially Catholic country, Pombal could not admit this openly, but he could act on his new-found convictions, and in the realm of politics actions always speak louder than words.

Under Pombal’s protection: “Freemasonry acquired strength and vigor and expanded its membership within the army, the aristocracy, and the erudite classes.” Pombal also engaged in the “recruitment of high-ranking officials, nobles and important people from Protestant countries to assist the army, industry and other economic sectors, he contributed indirectly

to the increase of lodges and brethren in Portugal.²⁴

The centerpiece of Pombal's campaign against the Church was the suppression of the Jesuits. Pombal played a key role in a coordinated campaign which involved a range of countries stretching over two hemispheres and proceeded step by step for almost 20 years. By 1751, the fame of "the mysterious missions of Paraguay"²⁵ had spread throughout Europe, just as the Jesuit *Relations* from Canada had spread the fame of the Jesuits throughout the Francophone world a century earlier. In an age fascinated by utopian projects based on the possibilities of creating society *ab ovo* on rational principles in the New World, the Jesuits, unlike Enlightenment dreamers like Rousseau, had succeeded in creating an economy that actually functioned on Christian principles. By the very fact that they existed, the Jesuit Reductions in Paraguay threatened the economic system known as Capitalism, which the English were intent on imposing on the New World.

After the founding of the Grand Lodge in London and the expulsion of the Jacobite lodges, Freemasonry became an instrument which served the interests of the British Whig mercantile class. Four years after James Anderson published the constitutions of Freemasonry and ten years after the reformed Grand Lodge came into existence, British merchants living in Lisbon founded the first Portuguese Masonic lodge in 1727. The fact that the name the Portuguese brothers chose was the "Lodge of the Heretical Merchants" gives some indication of who was calling the shots. The history of Portuguese Freemasonry claims that the name was an indication "that its members probably were Protestants,"²⁶ which is undoubtedly true, but Whig Presbyterian merchants would have been more accurate.

Portugal's second lodge was founded in 1733, again by a British agent, George Gordon, whom the official Masonic history describes as "an individual sent by the Grand Lodge of England to act as a facilitator for the emergence of new lodges, which could also act as offices for Masonic information and as centres of British influence."²⁷ The establishment of the lodge always followed in the wake of some projection of British imperial interests, more often than not a military campaign. When the Portuguese lodges were suppressed by Catholic reaction after the death of the unfortunate Jose I, the arrival

of an expeditionary contingent of the British Army in July 1797 in support of the Portuguese resistance against an attempted French occupation played a decisive role in a fresh rebirth of Freemasonry in Portugal. This rebirth was initiated by the creation of four British lodges in Lisbon.²⁸

In 1738, after Pope Clement XII issued a papal bull, *In Eminenti Apostolatur Speculatae*, the second Portuguese lodge was dissolved and some of the masons transferred to the first lodge. This papal bull forbade Catholics from participating in any Masonic activity, under the penalty of excom-

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munication. When John Coustos, a diamond merchant who founded the third lodge in Portugal in 1741, was arrested as part of the civil campaign of suppression which flowed from Clement XII's bull, no less a figure than the King of England took up his cause. According to the history of Freemasonry in Portugal:

The British Ambassador in Lisbon during the reign of King George II, Lord Charles Compton, acted firmly seeking Coustos's liberation. He transmitted to the King of Portugal, D. Joao V, George II's personal request for Coustos to be liberated. Coustos was liberated in October 1744 and sent back to England on board of the ship *The Diamond*. In London he broke his imposed promise of silence and in 1748 published a book, *The Unparalleled Sufferings of John Coustos*, in which he denounced with the aid of several illustrations, the abuses inflicted to him during his imprisonment. Coustos's book had a major impact in England, helping to increase the British scorn and condemnation of the methods used by the Portuguese inquisition and raising public sympathy for freemasonry.⁹

As a result of Coustos' arrest, The Heretic Merchants Lodge was disbanded in 1755. Perhaps in retaliation, the war against the Jesuits in France began in earnest in the same year when a Jesuit in Martinique had to declare bankruptcy because his ship was confiscated by the English as part of the Seven Years war.

In 1751, one year after Pombal was appointed prime minister, Benedict XIV promulgated another papal bull against the Freemasons, *Providas Romanorum*, which reaffirmed the injunctions of Pope Clement's papal bull issued in 1738. The Bull led to the suppression of Freemasonry in Spain and Naples, but Portuguese freemasonry was free from persecution because of the protection which the Marquis de Pombal, who was now deeply involved in the implementation of the Boundary Treaty, afforded it. Carman describes Pombal as "a strong supporter if not the architect of the treaty,"¹⁰ and tells us that Pombal used the opportunity which the Boundary Treaty provided to have his brother Francisco de Mendonca Furtado appointed Captain-General of Paraguay. Pombal then gave instructions to his brother to "destroy the Jesuits in the esteem of Joseph I, King of Portugal."¹¹ Following Pombal's orders, Furtado created a series of libels which Pombal later published as *A Short Account of the Jesuit Republic*. Pombal's *Short Account* was the Masonic counterattack against the Jesuit *Relations* and all of the favorable publicity they had gained for the Jesuits' work in the Americas. Taking their cue from the Jesuits whom they hoped to destroy, the Masons created a network of publishers and publicity agents who took Pombal's tract and broadcast it and its translations throughout Europe in a "campaign against the Jesuits [which] was superbly orchestrated in a hundred other books and pamphlets addressed to the monarchs of Europe and the pope himself."¹²

According to the *Catholic Encyclopedia*, The Boundary Treaty, which

was concluded in secret in Madrid, specified that in exchange for the right to retain the town of San Sacramento, which guarded the mouth of the Uruguay River, Spain had to

transfer to Portugal, in exchange, the seven Reductions lying on the left bank of the Uruguay, i.e. about two-thirds of the present Brazilian province of Rio Grande do Sul and one of the most valuable sections of the territory of La Plata. The treaty further provided (article 16) that the missionaries and their thirty thousand Indians leave their home, founded during a hundred and fifty years of patient toil, with bag and baggage and without delay, and settle on the opposite bank of the Uruguay.¹³

The Jesuits were stunned when they learned about the terms of the treaty:

This change of location was, even from the viewpoint of colonial policy and political economy an incomprehensible miscarriage of justice towards the missionaries and the Indians alike, whose wishes had not been consulted in any manner; it was "one of the most tyrannical commands that was ever issued in the recklessness of unfeeling power." Southey correctly adds that the weak Ferdinand VI had no idea of the importance of the treaty.

Nor did the King of Spain have any idea that the real reason behind the treaty-induced ethnic cleansing was the *auri sacri fames*, the accursed lust for gold. Resurrecting the century-old libels of Bishop Cardenas, the Portuguese claimed that the Jesuits had secret gold mines which provided them with untold riches.

According to the terms of the treaty, the Guarani had to abandon the settlement which they had labored for over a century to create. Virtually all of the ecclesiastical and civil authorities in the Spanish colony of La Plata were appalled at what the Spanish king was demanding. The Jesuits had come to expect this sort of behavior from the Portuguese, but to be treated this way by the King of Spain left them feeling doubly betrayed. As soon as they learned of the terms of the treaty,

The Viceroy of Peru, the royal Audiencia of Charcas, and the secular and ecclesiastical authorities unanimously sent protests of the most emphatic nature to the Spanish Cabinet. They were as unsuccessful as the earnest petitions of the Jesuits, who declared that it was impossible to approach the Indians with the cruel demand to give up their home and their possessions, solemnly granted them by so many royal decrees, and to surrender them without any cause or provocation to their enemies and oppressors, the Portuguese. It was all of no avail.

The Church hierarchy was determined to collaborate with their enemies:

Ignazio Visconti, the General of the Society, over-compliant to the wishes of the king, issued a strict command to the members of the order to yield to the inevitable and to prevail upon the exiled Indians to submit, a task which they

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performed, at first indeed without success. In begging earnestly for a respite and in making every effort to have the cruel measure revoked they merely performed their duty; to present their conduct as insubordination, as has been done, is unjust.¹⁴

In 1752 the Jesuit Altamirano landed in Montevideo to implement the treaty. Like the Jesuit General Visconti, Altamirano was more interested in currying favor with the king than supporting his brother Jesuits. Unlike the character based on Altamirano in Roland Joffe's movie *The Mission*, Altamirano made no attempt to find out the real situation in the Reductions or the feasibility of carrying out the king's orders or the real threat which the Portuguese posed to a century and a half of heroic labor among the Guarani. Altamirano felt that his job was to enforce the terms of the treaty no matter what.

Given this attitude, the outcome was predictable. The Jesuits "endeavored to lead them quietly to the distant land allotted to them,"¹⁵ but the Indians, feeling betrayed by the Jesuits rose up in rebellion in 1756 and attacked the Spanish army.

Without the Jesuits to unite and advise them as they had done during the Mameluco Wars of the previous century, the Indians had little chance, and their armed resistance collapsed in February 1758. The Indians who refused to submit escaped into the forests where they prosecuted a fitful and ineffective guerilla warfare. The majority of the Indians, however, followed the advice of the Jesuits and relocated to the Reductions on the Parana River and the right bank of the Uruguay. By the time the Spanish crown rescinded its ill-conceived treaty in 1781, 3052 families, numbering 14,018 souls had returned to their old homes.

The Boundary Treaty debacle was a severe blow to the Jesuit Reductions, but it wasn't fatal. The fatal blow would come later when it became clear that the Reductions could not survive without the guiding hand of the Jesuits who had created them. Even though the Jesuits urged the Indians not to take up arms against the Spaniards, the War of the Seven Reductions got incorporated into Pombal's propaganda campaign and was used as proof of the Jesuits' seditious intent:

A flood of defamatory pamphlets, falsified documents, and ridiculous fables, as, for instance, the tale of a king, Nicholas I of Paraguay, went out from an unscrupulous press which Pombal controlled, and was spread broadcast over Europe by the anti-Jesuit faction. Although their absolutely un-historic character has long been clearly proven, these publications continue even now to vitiate the historical presentation of this period.¹⁶

In the aftermath of the ethnic cleansing of the Guarani and the unsuccessful War of the Seven Reductions, the Jesuits did their best to settle the Indians on the other side of the Uruguay river, but in Rome Pombal,

was putting pressure on the aged Pope Benedict XIV to suppress the order completely. The pope reacted by stalling for time. On April 1, 1758 Benedict appointed Cardinal Saldanha to investigate the allegations against the Jesuits, which had been raised in the King of Portugal's name. As in all investigations of this sort, final judgment was reserved to the pope, who unfortunately for the Jesuits, died five weeks later. Saldanha, taking advantage of the interregnum to curry favor with the ministers of Spain, Portugal, and France, pronounced "on the issues which the pope had reserved to himself, declared that the Jesuits were guilty of having exercised illicit, public, and scandalous commerce both in Portugal and in its colonies. Three weeks later, at Pombal's instigation, all faculties were withdrawn from the Jesuits throughout the patriarchate of Lisbon."⁷ The work of the Jesuits had been destroyed during the interregnum before Clement XIII became pope on July 6, 1758. One year later the order was civilly suppressed.

In 1755 Voltaire left Berlin after quarreling with this patron Frederick II of Prussia and purchased an estate near Geneva which he named "Les Delices." While he was settling into his new home, an earthquake and subsequent Tsunami killed 30,000 people in Lisbon. The earthquake took place on a Sunday morning, while many were attending Mass on All Saints' Day, a fact which many Christians found particularly troubling. As a result, they felt the need for some latter day Milton who could "justify God's ways to man." John Wesley, founder of Methodism, saw the hand of God in the natural catastrophe, but others of a less pious bent began to question God's providence and how it fit into evil of this magnitude. Egged on by the Masonic elites in nominally Catholic countries like France and Portugal, the believing Christian suddenly found himself on the horns of a dilemma forced to choose either God's power, in which case He was implicated in evil, or God's goodness, in which case He was powerless to stop evil. Arguments like this were gaining currency in an age in which increasingly wider circles were being affected by Enlightenment propaganda. Either way it didn't look good for God.

Two years after Pombal issued his libel against the Jesuits and four years after the Earthquake in Lisbon, Voltaire conflated the two events, creating *Candide*, his most famous work, which appeared in 1759. Voltaire was no atheist; like his English mentors, he was a deist who "denied any credence to knowledge through revelation, but maintained that the world is a divine creation with an evident ordering that can be understood through reason."¹⁸

Needless to say, Voltaire's reason was not *Logos*. In fact, what Voltaire called reason was not only a severely truncated form of the late Scholastic use of the term but a radical revision of the Cartesian heritage as well. The order of the universe was now Newtonian, which meant that, "God's or-

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der is evident—for example, in the laws of nature—nevertheless, whatever plans God might have could not concern human happiness or any conception of a goodness that humans might fathom.”¹⁹ Taking his lead from Newton, Voltaire wrote *Candide* as an attack on the idea that the universe had a moral purpose, or for that matter, any moral significance whatsoever. *Candide* was a crude attack on the teleology that Newton had banned a century before. It was also a substantiation of Hume’s claim that there was no such thing as a synthetic a priori, i.e., a statement about the world that was both true and real at the same time.

In order to attack the pre-Newtonian universe where motion presupposed entelechy, Voltaire created a strawman by the name of Pangloss, a “professor of metaphysico-theologo-cosmolonigology,”²⁰ to discredit the idea of God’s providence as well as the idea of God’s power to bring about His ends, including the ability to bring good out of evil. The by then millennia old idea behind Joseph’s statement to the brothers who had sold him into slavery but now needed his assistance to alleviate famine, namely, “The evil that you intended to do to me has been turned by God’s power into good,” got transmuted into the vulgar parody of Pangloss, who “could prove most admirably that there is no effect without a cause, and that in this world, the best of all possible worlds, the Baron’s castle was the most magnificent of castles, and his lady the best of Baronesses that could possibly exist.”²¹ Reducing entelechy to its *reductio ad absurdum*, Pangloss goes on to insist:

that things cannot be otherwise than as they are, for all things having been created for some end, they most consequently be created for the best. Observe, that the nose is formed for spectacles. The legs are visibly designed for stockings and there we come to wear stockings. Stones were made to be hewn, and to construct castles; therefore my lord has a magnificent castle: for the greatest baron in the province ought to be the best lodged. Swine were intended to be eaten; therefore, we eat pork all the year round, and they who assert that everything is right, do not express themselves correctly; they should say that everything is for the best.²²

One of Voltaire’s favorite themes was the religious wars of the 17th century, which he used to discredit Christianity and which he drags into his attack on entelechy when he claims that:

Pangloss . . . demonstrated to him that the bay of Lisbon had been made on purpose for the Anabaptist to be drowned. While he was proving this a priori, the ship foundered and the whole crew perished except Pangloss, Candide and the sailor, who drowned the good Anabaptist.²³

Voltaire also wrote *Candide* as part of the campaign against the Jesuits in Paraguay that was being orchestrated by the Marques de Pombal. He fired his first shot in his war on “the infamy” (Voltaire, in imitation of Cato the Elder, began signing all of his letters, “*Écrasez l’infame*”) with the pub-

lication of *Relation de la Maladie du Jesuite Berthier*. In *Candide* Voltaire portrayed the Jesuits as having grown "rich on the sweated labor of the Indians."²⁴ After a series of adventures, *Candide* arrives in South America, just as:

A fleet was then getting ready, and troops were assembling in order to reduce the Jesuits of Paraguay, who were accused of having excited one of the Indian tribes in the neighborhood of the town of the Holy Sacrament to revolt against the kings of Spain and Portugal.²⁵

When he finally reaches the Jesuit Reductions, *Candide* is treated to: "An excellent breakfast was provided in vessels of gold, and while the Paraguayans were eating Indian corn out of wooden dishes in the open fields and exposed to the heat of the sun, the reverend father commandant retires to his arbor."²⁶ All that remains at this point is to have a fictitious cacique by the name of Cacambo give voice to the libels floated by Pombal two years earlier. Cacambo tells *Candide*: "For my part, I see nothing so divine as good fathers who wage war in this part of the world against the kings of Spain and Portugal at the same time that they hear the confessions of those princes in Europe, who kill Spaniards in America and send them to heaven at Madrid. This pleases me above all things."²⁷

The idea that the Jesuits encouraged the Indians to rise up and "kill Spaniards in America" was a pure fabrication. When Voltaire was writing these lines, the Jesuits were trying to persuade the Guarani not to attack the Spanish soldiers who were the unwitting pawns of the Marquis de Pombal, who also furnished Voltaire with his libels. Contrary to the writings of Voltaire and Pombal,

Loyalty to the king and enthusiasm for his cause and person were instilled deeply by the fathers in the hearts of the Reduction Indians, Philip V himself declaring in his famous decree of 28 December, 1743 that in his entire colonial possessions in America he had no more faithful subjects.²⁸

The Spanish Crown had to learn the hard way how much they owed the Jesuits for the Indians' support. When the Comuneros staged their revolt (1721-1735) and tried to secede from Spain, the Indians sided with the crown. Once the Jesuits were suppressed, the strongest bulwark of Spanish rule was removed, and revolution and secession from Spain followed as a matter of course.²⁹

Candide turned public opinion against the Jesuits at a crucial moment, just as they were recovering from the effects of the Boundary Treaty and slowly persuading the Guarani to return to their Reductions.

When Charles III succeeded the hapless Ferdinand, who had set the Boundary Treaty in motion, to the throne of Spain in 1759, the situation went from bad to worse. Charles retained Bernardo Tanucci as his advisor, and Tanucci was in league with the Count of Aranda, who was in league

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with both the Marques de Pombal in Lisbon and the Duc de Choiseul in Paris. All of these conspirators were united by their hatred of the Catholic Church and their determination to "crush the infamy." The conspirators were united in tactics as well. And all of them saw the destruction of the Jesuits as their surest means to achieving their ultimate goal. These ministers

proceeded by calculated stages. First, Charles' mind was poisoned against the Jesuits by a long series of calumnies, insinuations and lies, a process that was eventually uncovered in the confessions of Pombal, made in a juridical process instituted against him after his downfall. The central point of the intrigue was to convince Charles III that, for mysterious reasons, the Jesuits had resolved to remove him from the throne and replace him by his younger brother.³⁰

After eight years in office, Pombal finally succeeded in getting the Jesuits expelled from Portugal in 1758. Three years later, Pombal had the saintly Jesuit Malagrida burned at the stake for heresy in 1761. At the same time other Jesuits were crowded into prisons and "left to perish by the score" in a gesture which would serve as a prelude of worse things in store for the entire Church in the aftermath of 1789.

In May 1761 the Jesuits lost their appeal in the Martinique bankruptcy case which had begun in 1755. The propaganda campaign launched by Pombal and Voltaire was having its effect. The Jesuits, who had enemies across the entire political spectrum in France, ranging from the Jansenists to the *philosophes*, now faced a united front which included Gallicans, Encyclopedists, and professors from the Sorbonne, all whipped into fury by a campaign of libel and disinformation. King Louis XV, who should have been their protector:

was weak and the influence of his court divided; while his wife and children were earnestly in favor of the Jesuits, his able first minister, the Duc de Choiseul played into the hands of the *Parlement*, and the royal mistress, Madame de Pompadour, to whom the Jesuits had refused absolution, was a bitter opponent. The determination of the *Parlement* of Paris in time bore down all opposition.³¹

One year later, in 1762 the Jesuits were expelled from France. In August of the same year, the Spaniards rescinded *de facto* their own treaty when

Cevallos crossed the Rio Plata, laid siege to Colonia and took it on 31 October. Two months later, on 6 January 1763, he repulsed a joint Anglo-Portuguese expedition sent from Rio de Janeiro to recapture the city and seize Montevideo and Buenos Aires. The English flagship . . . was blown up by the Spaniards.³²

Although the ill-fated Boundary Treaty would not be rescinded *de jure* for another 18 years, the Spanish military action was *de facto* proof that the misbegotten idea had failed and that the treaty could be safely assigned to the dead letter office. The Anglo-Portuguese counterattack which followed Cevallos successful attack also removed any doubt that Portugal was acting alone in pursuing her foreign policy. Pombal was working hand in glove

with the English in his campaign to destroy the Jesuits, which was part of a larger plan to destroy the influence of Catholic Spain in the Americas.

The Jesuits of Paraguay knew, of course, that the English and the Portuguese were their enemies and that they were working in concert to destroy them, but this did not prepare them for their betrayal at the hands of Spain when the final blow fell. In 1767, Charles III, who was if anything, stupider in defending his own interests than his hapless predecessor, signed the order expelling the Jesuits from Spain. In late March all of the Jesuit residences in Madrid were "surrounded, their inmates herded into designated depots, and from there transported out of the country by sea."³³ Three months later, at 2:30 a.m. on July 3, the same order was carried out in Buenos Aires. One week later, "the Jesuits of Córdoba . . . the hub of the Province . . . were herded into the refectory of the main residence while an inventory was made of their treasures."³⁴

The Marquess of Bucareli, who as Governor of La Plata, was assigned to carry out the expulsions in America, waited a year before moving on the Jesuit Reductions in Paraguay. On May 24, 1768, Bucareli began his march up the Uruguay with an army of 1,500 soldiers. It was not an impressive military force. The Guarani had assembled armies ten times that size in the past and had successfully routed the Mamelucos. With the Jesuits in charge of their defense, the Reductions could have easily thwarted the invasion and set up the Jesuit state which Voltaire fantasized about in *Candide*. It would have taken the entire might of the Spanish army to dislodge the Guarani from their own territory. If the Jesuits had urged the Guarani to take up arms against Bucareli, they would have been justified in seeing themselves as serving Spanish interests because the treaty was doomed to be rescinded anyway, and it was the Jesuit Reductions which "guarded the frontier from Panama to Patagonia."³⁵ If the Jesuits had been given a little more time:

the final subjugation of the South American Indians from Charcas through the Chaco to Patagonia seemed a prospect that might be realized in the lifetime of the younger members of the Jesuit Province of Paraguay. Fresh priests were on their way across the Atlantic; the ravages of the Guarani war had been largely repaired.³⁶

But the Jesuits were given an ultimatum instead of more time, and instead of resisting Spain for its own good, they obeyed, as Ignatius Loyola had trained them to, and "they made no fight, or offered any resistance, allowing themselves to be taken as the sheep is seized by the butcher."³⁷ And so 564 Jesuits surrendered to Bucareli and his 1,500 troops, abandoning by that act 12 colleges, one university, one novitiate, three retreat houses, two residences, and 57 Reductions which served as the home to 113,716 Christian Indians. "The leave-taking from the Indians was heart-rending," we

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are told. "In vain they pleaded in the most fervent manner to be allowed to keep their Fathers or to be assured that they would return. They never returned."³⁸

After the Jesuits were expelled, the spiritual administration of the Reductions was handed over to the Franciscans and public administration to Spanish civil officials, and a period of decline set in. Over the 14-year period following the Jesuits' surrender in 1758, the Guarani population declined from 113,716 to 80,881 souls. By 1796, only 45,000 Guarani were left. The continuing decline "showed that their vitality had been destroyed."³⁹ When that vitality disappeared, "The beautiful churches fell to pieces; the magnificent economic institutions stood forsaken."

Dr. Karl von der Steinen, the famous German ethnographer, claimed that "the expulsion of the Jesuits was a severe blow for the native inhabitants of La Plata and the Amazon territories, from which it has never recovered."⁴⁰ When the Scottish traveler, W. P. Robertson arrived in Candelaria in the 1830s, he discovered the South American version of Wordsworth's "Tintern Abbey," complete with "bare, ruined choirs," the infallible sign that capitalism has succeeded Catholicism as the state religion. As in England at the time of Henry VIII, "What had been a near ideal society was made to serve the personal gain of officials." The town which was once home to 3,064 inhabitants under the Jesuits now had barely 700 residents. "The church was in a state of dilapidation; the rain was pouring in through many apertures of the roof; the walls were bare and even the altar was uncovered by a cloth. . . ."⁴¹

The destruction of the Reductions replicated in an uncanny way the destruction of the monasteries in England two centuries earlier. Taken together these two stories would provide a paradigm for Capitalism which would be replicated again and again in centuries to come. Wherever English capitalism took root, labor would be defeated by the *auri sacri fames*: "Bucareli had been convinced that gold was to be found in the 30 towns, and was determined that it should not fall into the hands of the Church,"⁴² but when the Jesuits were expelled and he finally got to loot the Reductions, he experienced "the keenest disappointment. Except the splendid decorations of the churches, of which entire wagonloads were carried away, none of the hoped-for treasures were found."⁴³ So much for the golden plates that Candide described during his sojourn with the Jesuits.

In 1769 Clement XIV was elected pope, and the pressure to suppress the Jesuits increased:

On 2 August, 1769, Choiseul wrote a strong letter demanding the Suppression with two months, and the pope now made his first written promise that he would grant the measure, but he declared that he must have more time. Then began a series of transaction, which some have not unnaturally been interpreted as a

devices to escape by delays from the terrible act of destruction, toward which Clement was being pushed. He passed more than two years in treating with the Courts of Turin, Tuscany, Milan, Genoa, Bavaria, etc., which would not easily consent to the Bourbon projects. The same ulterior object may perhaps be detected in some of the minor annoyances now inflicted on the Society. From several colleges, such as those of Frascati, Ferrara, Bologna, and the Irish College at Rome, the Jesuits were, after a prolonged examination, ejected with much show of hostility. And there were moments, as for instance after the fall of Choiseul, when it really seemed as though the Society might have escaped; but eventually the obstinacy of Charles III always prevailed.⁴⁴

In the middle of 1772 Charles sent a new ambassador to Rome, Don Joseph Moñino, afterwards Count Florida Blanca, a strong, hard man, "full of artifice, sagacity, and dissimulation, and no one more set on the suppression of the Jesuits."⁴⁵ After a series of futile delaying maneuvers, the ministers of all of the Catholic powers in Europe, using all of the "artifice, sagacity and dissimulation" at their disposal finally backed the pope into a corner and forced Clement XIV to sign the death warrant for the most effective tool the Catholic counter-reformation possessed in dealing with a Protestant revolt, which began in religious fanaticism and ended up in service to Mammon. The order suppressing the Jesuits, inspired by those who hated the Church but ratified by the head of the Church itself, got handed down on August 16, 1773. "Poor pope!" wrote Alphonsus de Liguori, trying to justify God's ways to man in ways that even Pangloss would have found challenging. "What could he do in the circumstances in which he was placed, with all the Sovereigns conspiring to demand this Suppression? As for ourselves, we much keep silence, respect the secret judgment of God, and hold ourselves in peace."

After King Jose I died on 24 February 1777, his daughter, Maria I, succeeded him as ruler of Portugal and sought to undo the damage which his unwitting sponsorship of Freemasonry had brought about. With her accession to power, Freemasonry in Portugal suffered a setback: "the religious prejudice and persecution of Freemasonry returned and freemasonry again became the declared enemy of the Church."⁴⁶ The Marques de Pombal was removed from office. In the trial which followed, he had to admit that the libels he had made up in his *Short Relations* were malicious fabrications. But by then his recantation was too late to save the Jesuits. The most effective tool for the evangelization of the New World had been broken up into its human atoms and scattered to the four winds. The Jesuits would return from the dead in the aftermath of the Napoleonic Wars, but the economic system which they created as a paradigm for the New World was gone forever. The Catholic alternative was banned from economic history and in its place the Whigs proposed their version of "the ideal society," to use Adam Smith's formulation, as one "characterized by peace, easy taxes, and a toler-

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able administration of justice." Capitalism would be portrayed by countless Whig historians as the system of nature itself and not as the predator which had strangled its Catholic rival in the cradle.

Endnotes

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Chapter Fifty-Nine

Theory of Moral Sentiments

In 1759, the year in which *Candide* was published in France, Adam Smith's first book, *Theory of Moral Sentiments*, appeared in England. Both books assaulted on the Catholic position, but they did so in different ways. Voltaire's attack relied on mockery and was typical of the era of decadent continental rationalism on its slide into revolution. Smith's project, on the other hand, had an aura of high moral seriousness that belied the fact that *Theory of Moral Sentiments* was in fact the subversion of the very tradition of moral philosophy which it claimed to expound.

The English never produced a thinker like the Marquis de Sade, who could reduce every noble sentiment to fluid dynamics. Even a revolutionary like William Godwin warned Percy Shelley, his soon-to-be son-in-law, to stay clear of the Illuminati, whose fame was being spread by Abbe Barruel's *Memoirs Illustrating the History of Jacobinism*. Of all the revolutionaries of his generation, Percy Shelley came closest to being England's version of the Marquis de Sade, which is to say, England's premier sexual revolutionary, but his second wife, Mary devoted the rest of her guilt-ridden life into turning her late husband into a Victorian angel instead of portraying him as the Frankenstein he really was. Barruel himself, grateful to Edmund Burke and the Rockingham Whigs for the asylum they granted French priests, many of whom were, like Barruel, Jesuits, was one of the chief promoters of the myth that English Freemasonry was somehow benign because it avoided the excesses that characterized the lodge on the continent.

The difference between English and continental sensibilities when it came to morals and religion would eventually play itself out in the history of the Grand Lodge, the quintessential Whig invention. When the Portuguese descendants of the Marques de Pombal returned from their exile in France in the 19th century, they brought with them the French rite of the Grand Orient of France, which was more "secular" than the English Grand Lodge, which brought it into existence. "Near the end of the 19th century," Pelo Irmão A. Gonçalves, author of *Breve Historia da Maçonaria em Portugal*, tells us, "the GOF repudiated the requirement that loges should work to the glory of the Grand Architect of the Universe (GAOTU), which is a fundamental element of Anglo-American Freemasonry. The GOF removed the Bible as one of the three obligatory great lights in every lodge. This led . . . to the expulsion of the Portuguese Obedience from Regular freemasonry, when the Grand Lodge of England cancelled its recognition, a situation that continues in the 20th century."¹

The split between the English and the continental lodges has led to one of the longest-running versions of good cop-bad cop in the intellectual history of the West. The regnant orthodoxy in Catholic circles as of this writing and the *sine qua non* of employment at any of the dicasteries in the Vatican during the pontificate of Benedict XVI revolves around a profession of faith that the American revolution bespoke a “benign” form of secularism and the French revolution its pernicious opposite that makes an affirmation of the Apostles’ Creed seem like a purely voluntary option by comparison. This peculiar, ahistorical misunderstanding of the real nature of the Enlightenment was based largely on the writing of John Courtney Murray and the dissemination of his ideas via the Second Vatican Council. Murray convinced the entire hierarchy of the Catholic Church that revolutionaries like Thomas Jefferson believed in something called the “natural law,” and without explaining the equivocation behind the term, Murray convinced the Church that “the American Proposition,” arising out of the American Revolution as it derived from the Scottish Enlightenment and the thought of figures like David Hume and Adam Smith, was somehow compatible with Catholicism.

In 1759, Voltaire and Smith were not proposing alternatives; they were linked via the Whig oligarchs who promoted the careers of both men to the same project of moral Newtonianism, which would ultimately inform *The Wealth of Nations* and the nascent science of economics. Smith could consider Voltaire his “hero,” because both men were working toward the same goals. They differed in their methods, their temperaments, and their ethnic and religious background, but the fact, as Phillipson points out, that “Smith . . . admired Voltaire unreservedly . . . is a reminder that the *Theory of Moral Sentiments*, *The Wealth of Nations*, and indeed Smith’s entire project were built on the foundations of the Enlightenment’s quintessential assault on religion.”³

Smith simply went about things differently than Voltaire. Voltaire was a Catholic living in a country that was not only officially Catholic; it was “the eldest daughter of the Church” as well, and as of 1759, when Smith’s and Voltaire’s respective books appeared, the main bulwark against Protestant political power and the economic system known as capitalism, which England was in the process of imposing on the entire world via military power and social engineering based on books like *TMS*. As a revolutionary, Voltaire was faced with a much simpler project, one which he himself summed up in the phrase “*Écrasez l’infame*,” which he appended at the end of his letters. Once the infamy had been crushed in France, everything would take care of itself, and the capitalist New Jerusalem would descend from the heavens, according to the principles which the French physiocrats were promoting at the time, namely, “*laissez faire, laissez passer, et le monde*

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va de lui meme." The new Jerusalem which lodge brothers like Voltaire were proposing was moral Newtonianism, pure and simple. It would come about all by itself once the impediments of popery had been removed.

As the scion of a Protestant revolution that was already more than two centuries old, Smith knew that things weren't that simple. Protestantism, which by the time Smith wrote his book, had become little more than a justification of capitalism, had its beginnings in theft. Theft, needless to say, is not a sound basis for any known moral or social order. And so the main task facing a Protestant social theorist like Smith was establishing the legitimacy of a regime based on theft, first theft of Church property, then theft of gold, and finally, when Smith wrote his book, theft of labor. In order to accomplish this feat and please the Whig oligarchs who managed his career, Smith had to turn the tradition of moral philosophy upside down. *Theory of Moral Sentiments* is, in this regard,

the culmination and swan-song of a long British tradition of moral questioning that goes back through Hume and Hutcheson, Mandeville, Shaftesbury, Locke and Hobbes into the political and religious ferment of the civil wars of the 17th century. Finished with popes and priests and absolute princes, the British wanted to find their own way to what was right and what was wrong.⁴

As such, *Theory of Moral Sentiments* was less a contribution to the history of practical reason than a conscious subversion of that tradition in the interests of Presbyterian commerce that came to be known as Capitalism:

TMS seeks to explain not why such an action is right and such an action is wrong, but how, in a world which has dispensed with external authority, we come to feel they are so. It is a search not for a doctrine of what is right and good for human beings at all times, but for a theory of how human beings form judgments of what is right and wrong on particular occasions.⁵

In a manner not unlike the *via media* which Anglicanism sought between Roman Catholicism and the dissenting tradition, Smith sought the mean between two extremes. To Smith's right lay the scholastic tradition which claimed that morality was a form of practical reason which was rooted in being and binding for all men. If he followed this tradition of moral thought, it would lead Smith to where he did not want to go, namely, to the conclusion that English wealth was based on theft, and that in order to restore moral equilibrium, restitution of ill-gotten gains was necessary.

To Smith's left, on the other hand, lay Bernard de Mandeville, who claimed that concepts like right and wrong were merely projections of self-interest. Rather than choose either logical alternative, Smith followed the lead of his mentors Hutcheson and Hume and joined the empirical tradition of thought which claimed, as Hume put it, that the "chief source of moral distinction" was, not reason, but "sympathy."⁶ Rather than resolve the dichotomy which faced him, Smith joined ranks with "some late phi-

losophers in England, who have begun to put the science of man on a new footing.”⁷ That new footing was moral Newtonianism, which claimed that man could derive moral norms by contemplating “nature,” which, by this point in time, meant physics.

Hobbes claimed that man was motivated solely by passion and needed to be restrained. Mandeville claimed that personal vice led to public virtue. Smith following Hutcheson wanted to show that man was motivated by benevolent feelings as well as by selfishness, and after proving his case, Smith wanted to demonstrate that the restraint Hobbes considered essential to civilization could be brought about “by natural rather than artificial means.” *Theory of Moral Sentiments* began by positing benevolence. That is the gist of the first sentence of the book, which claims: “How selfish so ever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.”⁸

Smith’s opening gambit in the realm of morals would have far-reaching economic consequences. If Smith’s career proved anything, it proved that economics remained firmly rooted in morals. Ross claims that “the moral psychology flowing from this opening sentence of *Theory of Moral Sentiments* also illuminates Smith’s economics in *The Wealth of Nations*.”⁹ The corollary to this statement was, of course, that bad moral philosophy was going to lead to bad economics, no matter how many good and true ideas Smith discovered along the way.

In addition to being part of the British tradition of moral philosophy, TMS was part of the tradition of “natural supernaturalism,” which M. H. Abrams has identified as the project of the Romantic era, a project which Nietzsche, in his inveterate suspicion of all things English, would re-christen “die Umwertung aller Werte.” It entailed taking traditional terminology and subverting it by giving the same terms new naturalistic meanings which undermined their tradition meanings. The locus classicus of natural supernaturalism in this regard was “natural law,” which meant one thing to Thomas Aquinas and something very different to John Locke.

Smith learned about the French physiocrats from Hume, who met them during his first visit to France, and it was from the physiocrats that Smith inherited his peculiar misunderstanding of natural law. Operating under the fatal influence of Newtonian physics, both Smith and the Physiocrats “confused the physical and the moral order under the term ‘natural law.’”¹⁰

Both physiocracy and Smith’s *Theory of Moral Sentiments* were examples of moral Newtonianism, which bespoke an “attempt to develop a coherent and plausible account of the processes by which we learn the principles of morality from the experience of common life.”¹¹ The project

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of moral Newtonianism was praised by the devotees of the Scottish School of Philosophy, who failed to see the pitfalls of doing moral philosophy by analogy. To say, for example, that men were made up of atoms or behaved like atoms in their social interactions injected an element of subjectivity into morality which deprived it of any moral force. According to Pesch, "the subjectivistic, rationalistic basis for the physiocratic natural law cannot provide the ought with a secure foundation."¹²

Natural Supernaturalism also entailed coming up with new terms which replaced traditional concepts. Smith created "the Impartial Spectator" as the guide for moral behavior, claiming that the "Impartial Spectator" is "neither father, nor Brother nor friend, either to them, or to us; but is merely a man in general." In a sentence that tells us more about Smith than about the moral order, he writes:

When we first come into the world, being desirous to please those we live with, we are accustomed to consider what behaviour is likely to be agreeable to every person we converse with, to our parents, to our masters, to our companions.¹³ . . . We conceive ourselves as acting in the presence of a person quite candid and equitable, of one who has no particular relation either to ourselves or to those whose interests are affected by our conduct; who is neither father, nor Brother nor friend, either to them, or to us; but is merely a man in general, an impartial Spectator who considers our conduct with the same indifference with which we regard that of other people.¹⁴

The "impartial spectator" in this instance sounds a lot like the orphan Smith's benefactor Lord Kames (and other Whig patrons throughout Smith's career), who served as "natural supernaturalist" surrogates for Smith's dead father. That allowed Smith to come up with the "Impartial Spectator" as the surrogate for what moral philosophy had previously called conscience. Buchan is correct in claiming that the "impartial spectator" is "Christianity turned inside out,"¹⁵ which is another way of describing natural supernaturalism. The source of our moral judgments is not conscience based on the moral law, something "which smacks of Sunday school," to the Whig oligarchs who wanted Smith to give a systematic exposition of their views, but rather "what our society thinks."¹⁶ For Smith, society is "the only looking-glass by which we can, in some measure, with the eyes of other people, scrutinize the propriety of our own conduct."¹⁷ Morality, in other words, is the interests of the Whig oligarchs projected onto the moral universe, where it takes the form of the "Impartial Spectator."

Morality, as a result, becomes something which is both totally extrinsic and at the same time totally subjective. It is extrinsic because it is based on what other people think, but it is subjective because it is ultimately based on our judgment of what other people think. Moral judgments are not based on practical reason as judged by an informed conscience, but rather

are nothing more than a projection of society's interests (which is to say the interests of the rich and powerful) which is subject equally to self-delusion on the one hand and peer pressure on the other:

When the original passions of the person principally concerned are in perfect accord with the sympathetic emotions of the spectator, they necessarily appear to this last just and proper, and suitable to their objects; and on the contrary, when, upon bringing the case home to himself, he finds that they do not coincide with what he feels, they necessarily appear to him unjust and improper, and unsuitable to the causes which excite them.¹⁸

Only someone who lived in a homogenous culture like the 18th low-land Scot Whig Presbyterianism which Smith grew up in could make a statement like that. Antigone knew that the individual conscience could be in conflict with the dictates of the state, but apparently the idea never occurred to Smith. Given the subjectivism which Smith inherited from his mentor Hume, the very idea is a priori impossible, because morality is nothing more than the cultural conditioning imposed on the individual by the society in which he is raised.

If society is the ultimate source of moral judgment, what is the moral agent to do when he is confronted by a society that imposes conflicting demands on him? If society is the ultimate source of moral judgment, how is the moral agent to adjudicate between conflicting demands? Furthermore, how is the moral agent sure that the spectator he appeals to is impartial? How is a Scot supposed to choose between Whig and Jacobite alternatives when the Impartial Spectator he appeals to is either a Whig or a Jacobite? The answer in Smith's day was simple enough. He can only choose what he has been born into and raised to accept as normal. Smith's *Theory of Moral Sentiments* leads, in other words, directly to social engineering on the one hand and cultural relativism on the other.

But what about societies that are divided by conflict or those that offer multiple possibilities? How is the Impartial Spectator supposed to choose between, as Buchan puts it, "the pub bore, the ranting newspaper column, the conversation of the bus-driver . . . [and] the hectoring talk-show host?"¹⁹ The answer is that he can't because the Impartial Spectator is really what Freud would call the Superego; it is nothing more than the internalization of the culture's taboos. As a result, moral choice in the sense in which Antigone defied Creon the King and buried her brother, in spite of the authority of the state and all of the social pressure it could exert, is impossible, and all the moral agent can do is go along with the schemes of the rich and powerful, which is precisely how Smith negotiated his academic career in articulating the philosophy of the rich and powerful which came to be known as capitalism.

In articulating his philosophical position, Smith, as we have indicated,

was following the lead of Lord Kames, who tried to think his way out of the main conundrum of Calvinism, namely, the conflict between human activity and divine predestination, in his *Essays on the Principles of Morality and Natural Religion*, which appeared in 1751, shortly before Smith took his post as professor of Moral Philosophy at Glasgow. Kames' solution to this conundrum came to be known as the "deception theory,"

which holds that a wise God imposes a deception on humans to achieve their ends and His. Kames argues that we live in a world of fixed natural laws, but proceed on the supposition that we face one of contingency. This, he writes, "is in truth the foundation of all the labour, care and industry of mankind." Inexorably, it seems, Kames is brought to the conclusion that while the philosopher cannot elude the doctrine of rigid fatalism, he has to behave as a man feeling he has power over his own actions. In this situation, he has a "feeling of liberty" which Kames does not scruple to call "deceitful."²⁰

In *Theory of Moral Sentiments*, Smith produced his own version of this "deception theory":

And it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and invent and improve all the sciences and arts, which ennoble and embellish human life; which have entirely changed the face of the globe, have turned the rude forests of nature into agreeable and fertile plains, and made the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth.²¹

Ultimately, the world of moral sentiments is a hall of mirrors and a cave of illusory shadows: "we may like to believe that the voice of the impartial spectator is the eternal voice of conscience or of the deity, but in reality his voice is that of the world to which we belong."²² Morality is "a deception, but a benign deception" because it enables us to get along with each other: "The deception . . . of being able to live sociably under the direction of the impartial spectator was enough for humankind, and enough to encourage the improvement of society and the progress of civilization."²³ Until, of course, disagreement arises. Since there is no such thing as practical reason, we share no common human nature as rational beings. That means that for those beings who lack the proper sentiments, the only remedy is military force or social engineering, both of which would get applied in the moral vacuum that Smith's *Theory of Moral Sentiments* enabled among the unscrupulous.

Because Smith's morality is totally extrinsic and mechanistic, it naturally leads to a concept like the "invisible hand," which will provide the foundation of his economic theory. Technically speaking, man does not do good. Rather he acts on his impulses, some of which are good, but all of which lead to the good over the long haul because of the nature of the

universe, not because of the nature of man's actions:

At the end of the day, what Stoicism required was "submission to the order of the universe" [now understood in the Newtonian sense], an "entire indifference to whatever concerns ourselves, when put into balance with the interest of the whole," as the bedrock principle of the propriety of justice.²⁴

No matter how much Smith tried to cover his tracks, his paganism keeps intruding. The ultimate source of Smith's moral thinking is the Stoic doctrine of harmoniously unfolding nature, and this also lies behind the reference to the "invisible hand" which lauds the selfish rich in pursuing their own ends to cause a "distribution of the necessities of life" tending to promote human happiness.²⁵ The "invisible hand" flows quite naturally from Newtonian physics. Self-interest, which corresponds to inertia in the Newtonian system, is corrected by competition, which corresponds to gravity. The result of these competing forces is perfect circular motion or, in economic terms, wealth. Greed alone is bad, but multiple greeds, according to the moral Newtonianism which Smith proposed via the invisible hand, are good because widespread vice corrects itself automatically via competition. What doesn't come from the Stoics directly (or indirectly via Newton) comes from Mandeville, who like Smith, felt that the rich, who have now replaced the elect in the updated version of Calvinism known as Capitalism, inevitably brought about the good "in spite of their natural selfishness and rapacity":

In spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of their improvements. They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal proportions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of society, and afford means to the multiplication of the species.²⁶

Smith tried to distance himself from Mandeville by denouncing "licentious systems" which are "pernicious" because they deny the distinction between virtue and vice,²⁷ but Smith's mechanical system, based as it is on an "invisible hand," makes the moral life impossible by making it ultimately unnecessary. No one is going to strive to do good when the same good comes about automatically, especially if it comes about "in spite of . . . selfishness and rapacity." If that is the case, why try to curb selfishness? Or rapacity, for that matter. Indeed, before long, Smith's successor in the Moral Philosophy Chair, Thomas Reid would refute Smith's entire theory of morals as "a Refinement of the selfish System" of Mandeville.²⁸

Like his mentors Hutcheson and Hume, Smith claims that our "first

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perceptions" of right and wrong and the "experiments upon which any general rules are founded" are the object of "immediate sense and feeling," and cannot be that of reason.²⁹

In insisting that right and wrong are "perceptions" not reasoning, Smith severs the nerve of moral effort. Knowing that this would lead to social chaos and misery, Smith has recourse to the "invisible hand" as the ultimate *deus ex machina* that rescues man from the onerous duties, obligations, and self-denial involved in moral behavior on the one hand, and the chaos which would naturally flow from this moral anarchy on the other. Good is not something which is achieved through the application of practical reason to the circumstances of daily life. No, instead, all good is now brought about extrinsically and automatically. Morality is "like a machine":

First we sympathize with the motives of the agent; secondly, we enter into the gratitude of those who receive the benefit of his actions; thirdly, we observe that his conduct has been agreeable to the general rules by which those two sympathies generally act; and, last of all, when we consider such actions as making a part of a system of behaviour which tends to promote the happiness either of the individual or of the society, they appear to derive a beauty from this utility, not unlike that which we ascribe to any well-contrived machine.³⁰

In addition to being like a machine, morality is another word for what people think; it is not based on social convention; it is social convention. Given its foundation in social convention, morality becomes a form of commerce. Because they are ipso facto reciprocal, moral encounters become "two-way affairs," and morality becomes "a matter of trading sentiments in the hope of being able to conclude a rewarding emotional deal."³¹

Although it is now chiefly known as the book which Adam Smith wrote before he wrote *The Wealth of Nations*, *Theory of Moral Sentiments* "was an immediate literary success in London as well as in Scotland."³² It met with "great approbation both on account of the matter and stile; and that is impossible for any book to on so serious a subject to be received in a more gracious manner."³³ *Theory of Moral Sentiments* obviously filled a need at a time when the English were conscious of, and uncomfortable with, the fact that they were operating in a moral vacuum, which was by then centuries old.

But the successful publication of *Theory of Moral Sentiments* didn't just happen; it was a function of "the Scottish literary patronage machine."³⁴ One of the main cogs in that machine was David Hume, who not only read *Theory of Moral Sentiments* in manuscript form and offered criticism but was also instrumental in "in distributing copies to influential people who might help Smith in his career."³⁵

One of those influential people was Charles Townshend, "one of the

most glamorous and ambitious politicians of his generation,³⁶ whose political career in the House of Commons took off when he married the Countess of Dalkeith in 1755 and gained access to her fortune and family connections. Townshend was so impressed with *TMS* that he offered Smith a position as traveling tutor to his stepson, Lord Buccleuch, on a tour of the continent for the not inconsiderable sum of 500 pounds per annum, followed by a lifetime pension of 300 pounds per annum. As with the promotion of Smith's book, Hume left nothing to chance when it came to getting Smith appointed tutor to Lord Buccleuch, holding Townshend to his promise when his attention strayed and "by calling on him twice to discuss the matter."³⁷

Townshend made the offer in writing on October 25, 1763,³⁸ and Smith accepted immediately, even though it meant giving up his academic career at Glasgow University. The fact that he would be earning as a tutor more than twice what he had been earning as a professor probably made the decision easier, and Smith notified the authorities of his intention on November 8. In January 1764, Smith left Glasgow for London, where he met young Buccleuch, and together they traveled to France, arriving in Paris on 13 February 1764.³⁹

After a year of exile in the provinces, Smith received permission to relocate with Buccleuch to Paris in 1765. On their way to Paris, Smith took his protégé to Geneva, "a city attractive to British visitors because its citizens spoke good metropolitan French, [and because] there was a lively intellectual life, and above all it was Protestant."⁴⁰ It was on this trip to Geneva, that Smith finally met his "hero" Voltaire. Given Hume's unhappy relationship with Rousseau and Voltaire's break with Frederick the Great, anything could have happened, but the meeting took place without incident, even though Voltaire and his niece/mistress were annoyed at how a party of English hunters had behaved themselves at Ferney. Smith's in person meeting with Voltaire did nothing to tarnish the image he had acquired of him from his writings; he went on to refer to Voltaire as the "most universal genius perhaps which France has ever produced. . . ."⁴¹

On March 2, 1766 Horace Walpole reported seeing Smith at a performance of the opera version of *Tom Jones*, with music by Francois-Andres Philidor, then popular in Paris. If Smith was a hit in Paris, it wasn't because of his physical charms. He spoke French badly, in a voice that was loud and unpleasant. He was physically unattractive; his teeth were too big. The actress and novelist Marie-Jeanne Riccoboni met Smith in May 1766 and "declared him ugly as the devil."⁴²

Smith's popularity in Paris was not a function of his personal charm. He was borne along on the crest of English ideas, and his popularity was largely a consequence of the popularity of those ideas. Voltaire had made

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a career out of propagating things English in France long before Smith arrived on the scene. Hume, who was more polished than Smith in society, had paved his way by introducing those ideas when he was part of the government delegation negotiating the Treaty of Paris and then sharing his contacts with Smith. As a result, Smith whiled away his time moving from one conspiracy to overturn throne and altar to another. After meeting Voltaire at Ferney, Smith met the Duchesse de Choiseul in Paris, where he also met the Baron d'Holbach and his coterie of *philosophes*. Smith also dined with Helvetius at the latter's house in Paris, where Smith expounded on commercial theory, banking and public credit in his barely comprehensible French.

By the time Smith arrived in France, the French had already been infected by English thought, and in particular by the Moral Newtonianism which Smith had popularized in *TMS*. Smith would later claim that "this branch of the English philosophy, which now seems to be entirely neglected by the English themselves, has of late been transported into France."⁴³ *Theory of Moral Sentiments* was just becoming popular in France when Smith arrived there with Lord Buccleuch, but unfortunately it arrived in Paris like the light from a dead star.

In 1764 Thomas Reid succeeded Smith as the occupant of the chair of moral philosophy at Glasgow, and as his first assignment he set out to expose the sophistry of Smith's system of moral sentiments. In a paper delivered in February 1765, Reid claimed that:

it is obvious that according to [Smith's] System there is no fixed Standard of Virtue at all; it depends not upon our own actions but upon the tone of our Passions[,] which in different men is different from Constitution [.] Nor does it solely depend upon our own Passion but also upon the Sympathetick passions of others, which may be different in different Persons or in the same Person at different times. Nor is there any Standard according to which either the Emotions of the Actor or the Sympathy of the Spectator is to be measured; all that is required is that they be in Harmony or Concord. It is evident that the ultimate Measure and Standard of Right and Wrong in human Conduct according to this system of Sympathy, is not any fixed judgment ground upon Truth or upon the dictates of a well informed Conscience but the variable opinions and passions of Men. So that we may apply to this system what Cicero says of the Epicurean: "So your school undoubtedly preaches the pretense of justice instead of the real and genuine thing. Its lessons amount to this—we are to despise the trustworthy voice of our own conscience, and to run after the fallible imaginations of other men (my emphasis)."⁴⁴

Smith's career as a moral philosopher, in other words, was over before it began, wrecked by a fellow Scot whose views would become influential in America, spread there by graduates of Princeton University. Not that it mattered to the French intelligentsia. They were infatuated with all things

English, no matter how preposterous or implausible. Their involvement with Freemasonry was proof enough of that.

Undeterred by what was happening in philosophical circles in Scotland, the ungainly Smith traded on his by then non-existent status as a moral philosopher to gain, with the help of Hume's introductions, entrée to Parisian *haute société*. He pretended to speak French and grande dames like Mme de Pompadour, Louis XV's mistress, and the Duchesse of Choiseul pretended to understand what he was saying, and what is even more implausible, the French ladies claimed "to have read with care in French almost all of his writings."³⁵

The Duchesse of Choiseul was, of course, the wife of the Duc de Choiseul, who along with Madame Pompadour—who hated the Jesuits because they would not give her absolution, in the absence of firm purpose of amendment, for the sin of adultery—was not only doing his best to destroy the Society, he was succeeding.

Smith arrived in France just as the Jesuit crisis was reaching its climax. In addition to the odium of the *philosophes*, the Jesuits suffered the hatred of the entire political spectrum of the Catholic Church as well. In 1762 Lomenie de Brienne was made archbishop of Paris. In addition to owning a magnificent library, Brienne was "a friend of *philosophes* such as Turgot, Morellet, and d'Alembert, a habitué of the leading Paris salons," and as such unlikely to give the Jesuits' cause a sympathetic hearing.

At the other end of the political spectrum, the Jansenists were equally fervent in their hatred of the Jesuits. On April 17, 1762, Abbé Chauvelin denounced the Constitution of the Jesuits as the source of all of their alleged crimes, including the allegation that their constitution condoned tyrannicide. Taking its cue from the Jansenists, the Parlement laid more crimes at the feet of the Jesuits. In its "Extraits des assertions," which claimed to be a summary of the Jesuits' teachings, the Parlement claimed that the Jesuits condoned "every sort of immorality and error from tyrannicide, magic, and Arianism, to treason, Socinianism and Lutheranism."

The results of this malicious campaign of disinformation were not long in coming. On August 6, 1762, Parlement issued an *arrêté* suppressing the order in France. The king intervened and gave the Society of Jesus an eight month reprieve, which brought forth favorable testimony from the French clergy as well as a series of letters and addresses published by Pope Clement XIII, which brought forth "a truly irrefragable attestation in favor of the order."³⁶ But no amount of evidence was going to placate the order's enemies. When the king's reprieve expired on April 1, 1763, the order's enemies moved against them. Their colleges were closed and the property confiscated by the state. On March 9, 1764 the Jesuits were ordered to renounce their vows under pain of banishment. In November 1764, the king reluc-

tantly signed the order which dissolved the Society of Jesus throughout his dominions. Even in acceding to Choiseul's wishes, the king insisted on having a number of calumnies removed from the decree, adding in a clause which indicated that his heart wasn't in the matter: "If I adopt the advice of others for the peace of my realm, you must make the changes I propose, or I will do nothing. I say no more, lest I should say too much."

The climax of the campaign to suppress the Jesuits coincided with Smith's arrival in France and the conclusion of the Treaty of Paris ending the Seven Years War. All three issues would converge personally for Smith, when his patron Lord Townshend was made Chancellor of the Exchequer in 1766 and charged with finding a way to pay for the war which had banished Jesuit popery from North America and had made Canada an English dominion. Indeed, as part of his description to Smith of what he hoped that Buccleuch would learn on the continent, Townshend told Smith

to pay particular attention to recent French history and to the all-important question of how "this insidious and vast monarchy, so enormous in its extent, at the completion, as it should seem of its ambition plan, renowned in arms, formidable in Navy and flourishing in Commerce, should have been found in the last minute of decisive trial, a monster in size and proportion, weak from that very size, and by some secret error in its constitution, the most incapable power by land and sea that modern Times have exhibited."³⁷

The timing of Smith and Buccleuch's arrival in France provided the perfect teaching moment for proving the superiority of Whiggery over French popery, in that it allowed Smith "to discover what 'secret error in its constitution' led to its failure by land and sea in the Seven Years War, despite its economic power."³⁸

If Lord Townshend were hoping that Smith could extract an economic justification for Whiggery from the outcome of the Seven Years War, he was in for disappointment. The French and Indian war, which was the name the Americans gave to the Seven Years War, ended in 1763. As soon as it was over, the wrangling over who was going to pay for it began, and, using this war as its excuse, the finance ministry in London began looking for ways to make the colonies pay off the national debt which had accumulated since the founding of the Bank of England, some 70 years earlier. The financial stakes were not insignificant. During the course of the war, the national debt nearly doubled, rising from 72 million pounds in 1755 to almost 130 million by 1764, when Smith arrived with Buccleuch in France. As if that weren't bad enough; the Bute ministry decided, in direct conflict with public opinion, that it wanted to maintain a standing army of 10,000 soldiers. Since no one wanted this army on English soil, Bute decided to quarter them in America at the colonists' expense. That decision only exacerbated the wrangling over who was going to pay for the crushing debt

which was the legacy of the Bank of England and the wars it enabled.

The first measure which attempted to pass the costs of war off on to the colonies was the Stamp Act of 1765. The act required that all official documents be printed on stamped paper produced in London which carried an embossed revenue stamp. The printed materials covered under the act included "legal documents, magazines, newspapers, and many other types of paper used throughout the colonies."⁴⁹ As if that infringement on local liberties weren't bad enough, the colonists had to pay for the stamped paper with hard currency, thus causing economic hardship in a land where gold and silver were scarce and paper money had become a viable alternative. The Virginia House of Burgesses in December 1764 sent a protest of the taxes to London, arguing that they did not have the specie required to pay the tax.

Unsurprisingly, the Stamp Act met with great resistance from the moment the bill was passed. Since the colonists had no representation in Parliament, many claimed that the act violated their rights as Englishmen not to be taxed without their consent. Bute was hanged in effigy. Local groups such as the Sons of Liberty organized protests in Boston, which soon became violent and intimidated the tax collectors into resigning their commissions. As a result the tax was never effectively collected.

Debate in the colonies over the Stamp Act had actually begun in the spring of 1764, and it soon grew into a heated discussion over the differences between the nature of the economic system which had de facto taken root in America and the system which the Whig oligarchs wanted to impose there. The same dissenters who had opposed the Catholic system the Jesuits had implemented in Canada now turned on their own erstwhile allies. In May 1764, Samuel Adams of Boston drafted the following statement of what he claimed was the American position on the matter of taxation and who should pay for the empire's wars:

For if our Trade may be taxed why not our Lands? Why not the Produce of our Lands & every thing we possess or make use of? This we apprehend annihilates our Charter Right to govern & tax ourselves – It strikes our British Privileges, which as we have never forfeited them, we hold in common with our Fellow Subjects who are Natives of Britain: If Taxes are laid upon us in any shape without our having a legal Representation where they are laid, are we not reduced from the Character of free Subjects to the miserable State of tributary Slaves.⁵⁰

The crisis over the Stamp Act brought Cumberland back to power. On October 31, Cumberland convoked a cabinet meeting at his apartment to deal with the protests. Given his track record in Scotland, it is not difficult to surmise the sort of plan he was proposing to implement in the colonies, but Cumberland's agitation led to sharp pains in the chest instead and he died of a heart attack before he could implement any plans. "Some believed

that if Cumberland had lived, he would have taken charge of the debate, kept the law in place, and made every effort to enforce the Stamp Act, with soldiers if necessary.”³¹ But he didn’t live, and, deprived of Cumberland’s brutality, Parliament backed down and revoked the Stamp Act in 1766, postponing the rebellion that was breaking out in the colonies for another ten years.

Townshend, who was appointed Chancellor of the Exchequer in the same year in which Cumberland had died, was no stranger to the debate. In 1763, the same year he offered Smith his job as travelling tutor, Townshend had referred to the recalcitrant American colonists as “children planted by our care, nourished up by our Indulgence until they are grown to a degree of strength and opulence, and protected by our arms,” who now had the effrontery to begrudge the English their request to their American children “to contribute their mite to relieve us from heavy weight of the burden which we lie under?”³²

Colonel Isaac Barre’s response was notable not only for its scorn and vehemence, but also for the sense of economic grievance which suffused it. America wasn’t created by “care”; it was created by people fleeing from “oppression,” which began with theft, and no matter how much it used religion as a pretext never got beyond the “economic” motives which created it. The American colonists

fled from your tyranny to a then uncultivated and inhospitable country where they exposed themselves to almost all the hardships to which human nature is liable, and among others to the cruelties of a savage foe, the most subtle, and I take upon me to say, the most formidable of any people upon the face of God’s earth. They nourished by your indulgence? They grew by your neglect of ‘em. As soon as you began to care about ‘em, that care was exercised in sending persons to rule over ‘em, in one department and another, who were perhaps the deputies of deputies to some member of this house, sent to spy out their liberty, to misrepresent their actions and to prey upon ‘em; men whose behaviour on many occasions has caused the blood of those sons of liberty to recoil within them . . .

They protected by your arms? They have nobly taken up arms in your defence, have exerted a valour amidst their constant and laborious industry for the defence of a country whose frontier while drenched in blood, its interior parts have yielded all its little savings to your emolument. . . . The people I believe are as truly loyal as any subjects the king has, but a people jealous of their liberties and who will vindicate them if ever they should be violated; but the subject is too delicate and I will say no more.”³³

The Stamp Act was repealed in March 1766. Townshend became chancellor of the exchequer during the same year. During his time in office Townshend was faced with the unenviable task of paying off the state debt and at the same time attempting to defuse the crisis which his debt repayment scheme had created in America. The repeal of the Stamp Act postponed the conflict with the American colonies for another ten years, and

it was during that period of time that Smith wrote *The Wealth of Nations*.

In 1766, toward the end of his stay in France, Smith met with François Quesnay, the French physician who founded the economic school known as physiocracy. Quesnay was born in the same year that the Bank of England was founded, when John Law was sitting in prison waiting to be executed. Quesnay was the son of a peasant who became a doctor and a "devotee of the Hippocratic notion that nature had its own healing powers."⁵⁴ Quesnay was appointed physician to the court of Louis XV in 1749 and from his dealings with the health of the aristocracy he began to draw analogies about the health of the economy. What both had in common was the principle of circulation. Influenced by Harvey's theory of the circulation of blood as the source of health in the body, Quesnay tried to come with an analogous principle for the economy. The result was Quesnay's *Tableau économique*, which aspired to work out in comprehensive detail the "interrelationships of that 'general system of expenditure, work, gain and consumption' to which he had referred in his article on 'Grain.'" Pesch claims that "For the physiocrats, the *Tableau* was the greatest discovery of the human intellect, along with the wheel, money, etc."⁵⁵ Smith was attracted to the physiocrats because "the *Tableau* provided a brilliant example of an 'imaginary machine,' like those explored by Smith for languages and astronomy 'ou tout se tient.'⁵⁶ The point of Quesnay's *Tableaux* was to show how "wealth generated by agriculture" is like "food ingested by the body," would naturally circulate though the different sectors of an economy in ways which would "naturally increase the revenue of the sovereign and the wealth of his people"⁵⁷ in a way that was as scientific as Newton's system of physics. In fact, many thought that physiocracy was "the real beginning of economic science."⁵⁸

When Smith met Quesnay during the summer of 1766, the latter was working on two articles: "Analyse de la formule arithmetique du *Tableau économique*" and "Problème économique," which would explain in greater detail the political implications of the *Tableaux*. One year later Quesnay followed up his articles with the publication of his book *Physiocratie*, which was in turn followed by the publication of Mirabeau's *Rural Philosophy* and a series of articles by Turgot, *Du Pont de Nemours* and *La Mercier De La Riviere*. As a result of this outburst of economic thought, Smith was "in the extraordinary position of being able to witness at first hand the development of the only other great system of political economy of the Enlightenment to his own,"⁵⁹ which would appear in 1776, two years after Quesnay's death.

According to Pesch, Smith's stay in Paris "resulted in a change in his world view in the direction of materialism."⁶⁰ Quesnay and his followers were of one mind with the British empiricists in believing that, "Only those

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truths are real truths which the senses derive directly from the objects."⁶¹ "Sensualism and nominalism,"⁶² as a result would provide the metaphysical foundation for the new science of economics. In addition, physiocracy

called for doing away with all state restrictions, especially the ban on the export of agricultural products introduced by mercantilism, and all import restrictions on consumer goods used by the farm population. It was necessary in order to help the "natural order" and "natural freedom" assert themselves. That is why the name "physiocracy" was chosen—the dominion of nature—to describe the new doctrine.⁶³

Smith found the thoughts of Quesnay compatible with his own writings because both Smith and Quesnay derived their principles from the same source and had the same model before their eyes in designing the new science of economics. That model was Newtonian physics. Both Smith and Quesnay were involved in the project of moral Newtonianism. Both men "exalted the physical order at the expense of the moral order."⁶⁴ Plagued by the blow which the social order had sustained as a result of the religious wars of the 17th century, Quesnay and Smith looked to Nature as the source of political authority and announced that the rules which governed economic exchange were to be derived from "the dominion of nature," hence, the name "physiocracy." This decision would have serious and lasting consequences. Blinded by his infatuation with Newtonian science, Quesnay came to "a totally false conception of the harmony between the physical and moral orders."⁶⁵ Quesnay's system was based on a naïve misunderstanding of the role of instinctive passion. It was the unanimous verdict of tradition that that instinctive, unregulated passion would "overcome man, if he does not beseech God for supernatural assistance."⁶⁶

Since the physiocratic system was based on a faulty foundation, one misunderstanding compounded another as the system attempted to articulate the application of its principles. Smith and Quesnay ran into difficulty because "the entire development of the physiocratic system was reducible to the rationalist and individualist philosophy of the Enlightenment," which held that "economic activity is subordinated to the laws of a mechanical causation." It was this foundation "that determined the characteristics of the subsequent edifice."⁶⁷

Because Quesnay believed that "The natural right of people can be defined in general as the right which man has to things destined for his enjoyment,"⁶⁸ the state abdicated its role as guarantor of the common good and limited itself instead to "the protection of the person, his freedom and his property."⁶⁹ The new mechanical, scientific state was based, not on a quest for the common good, but rather "complete freedom of competition": "*la plus profitable à la nation et à l'État, consiste dans la pleine liberté de la concurrence.*"⁷⁰

The minimalist state which derived its justification from laissez faire principles may have seemed like an improvement over the repressive and often nonsensical prohibitions of mercantilism, but ultimately it would prove itself as inadequate to the political and economic role it arrogated to itself. Economic exchange, while necessary to human existence, is not an adequate model for the complexity of social life. To say that it should serve as that sort of paradigm was to mistake the part for the whole. In construing the nascent science of economics as pseudo-physics, the founders created a moral vacuum which the plutocrats could all too easily fill. All of the economic woes of the coming centuries could be traced back to one fundamental error, namely, the divorce between economics and morality and the adulterous union between economics and physics which took its place.

Over a century after Smith met Quesnay in Paris, Karl von Vogelsang would write: "That entire staggering maldistribution of wealth which has occurred in recent decades in favor of the plutocracy and to the utter ruin of productive classes stems from the abandonment of the fundamental, moral economic principle."⁷¹ Pesch made the same point in a different way when he wrote that: "Society where justice does not find application in its full scope cannot be regarded as based on God's natural law, and it cannot correspond to an order desired by God."⁷²

By abandoning the moral law in favor of pseudo-physics at the crucial moment of its inception, Capitalism became "a source of universal ruination."⁷³ "Individual liberty, the free choice of occupation, freedom of industry and consumption, freedom of movement from place to place, and freedom of private property" all flowed naturally from "the famous motto of physiocracy, *Laissez faire, laissez passer, le monde va de lui meme*,"⁷⁴ in creating a world in which "exploitative entrepreneurs" could strangle each other in hectic world competition," at the expense of exploited workers at whose material and moral expense that competitive battle is carried on," and "a peasant and craftsman class" is allowed to sink into the abyss of proletarianism.⁷⁵ Under the influence of Smith and Quesnay, Capitalism became the basis for not the best but the worst social order, immoral and unjust to its very roots, where one can insist on the right to exploit any individual physical capacity that is possible and advantageous in given circumstances.⁷⁶

Smith considered Quesnay and his circle "the most intelligent men in France."⁷⁷ Smith recognized in the physiocrats kindred spirits, but he was handicapped in his ability to discuss their principles by his imperfect French and the fact that, as of their initial meetings, he hadn't read their material in any extensive fashion. Smith had read Quesnay's

Encyclopedie articles on "Grains" and "Fermiers" which had advocated free trade in grain and laid the foundations of Quesnay's classic claim that land was

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the sole source of a nation's wealth. He also knew that "Quesnay had developed these principles in high abstract terms in his *Tableaux économiques*."⁷⁸

The physiocrats, for their part, viewed Smith as "an unknown quantity." Du Pont de Nemours considered Smith "a judicious, simple man, but one who had not yet proved his worth."⁷⁹ Smith had no reputation as an economist. As of 1766 when he first met Quesnay, Smith was known as "a friend of Hume who had a brilliant and currently fashionable system of moral philosophy to his credit, and a system of political economy in gestation that addressed many of the economists own concerns but did so in ways that were puzzlingly different to theirs."⁸⁰

When he finally got around to writing *The Wealth of Nations*, Smith described Quesnay's system as an overreaction to Colbert's celebrated and abortive attempt to turn France into a great trading and manufacturing country by means of "a system of restraint and regulation" that favored the industry of the towns to that of the country.

Having met Quesnay and discussed economic issues with him and his followers, Smith came away from his experiences in Paris convinced that the physiocratic system was "the closest approximation to the truth that has yet been published upon the subject of political economy."⁸¹ That applied specifically to its teaching "representing the wealth of nations as consisting, not in the unconsumable riches of money, but in the consumable goods annually reproduced by the labour of the society, and in representing perfect liberty as the only effectual expedient for rendering this annual reproduction the greatest possible. . . ."⁸²

Pesch claims that physiocracy arose in reaction to Mercantilism, and that "Mercantilism was a consequence of the Reformation and the collapse of Christendom."⁸³ The first consequence of that collapse was a nationalism which put every nation at the throat of every other nation and resulted in innumerable wars: "the entire period from 1600 to 1800 was one marked by warfare lasting for years and decades . . . that shows the spirit of the time in its true light."⁸⁴ The second consequence was that:

The moral law, integrity, justice and humanity for all practical purposes no longer had any bearing on regulating international relations. Impassioned selfishness, brutal supremacy, malice and cunning decided all issues.⁸⁵

Physiocracy proposed free trade as the solution to the first problem and Newtonian self-correcting mechanisms, like Smith's famous "invisible hand," as the solution to the second. If left to its own devices, the economy would heal itself just as the human body did.

Mercantilism had been born out of the needs of the time. It began at the end of the great bullion dearth of the 15th century when Europe was emerging from a feudal labor-based economy into a money economy. "The money economy has just moved to a higher level of development. . . . The

state needed money and in the 'accumulation of gold,' which was now available in unheard of quantities from the New World, the mercantilists saw the foundation for wealth and power. The basic fallacy of mercantilism . . . lay in the fact that they did actually put money too much in the foreground when considering the meaning of wealth."⁸⁶

By the time Smith met with Quesnay and the physiocrats, banks like those in Amsterdam and England had solved the money problems that plagued the 15th century, and even though paper money, as the French well knew from the Mississippi Bubble debacle, brought problems of its own, it broke the hold that gold had on the mind of those who were literate in the principles of the new science of economics.

The reaction to mercantilism had been growing for over a century by the time Smith met with Quesnay. Boisguillebert . . . inveighed against Colbert's prohibition of the export of grain, which by keeping down the price of that staple, was ruining agriculture; and against the mercantilist confusion of economic wealth with the possession of precious metals. The excesses of the Mercantilist system led to a reaction, which first manifested itself in the call for free trade.⁸⁷

In 1640, Pieter de Groot, the son of Hugo Grotius, laid the philosophical foundation for free trade when he wrote:

God has devised nature and the variations in soil and climate in such a way that every country has something unique which others lack. That is how the need to engage in trade between surplus and what is lacking which we call trade, originated. If we work against this need by making commerce more difficult through high tariffs, then we will eventually place nations in a position where they will have an oversupply of some things while lacking in other things which they need . . . good fortune will thus be impaired.⁸⁸

War and commerce, in other words, needn't be synonymous.

By the 18th century, the shortcomings of mercantilism's emphasis on the accumulation of gold as the sole source of wealth were becoming increasingly apparent. French critics like Cantillon, Gournay and the Marquis d'Argenson, who became the champions of "laissez faire" and free trade, were joined in England by William Petty (1623-1687) John Locke (1632-1704), and Dudley North (1641-1690).⁸⁹

Secure in their knowledge that mercantilism had gotten certain fundamental issues wrong, the anti-mercantilists set out to discover the true basis for wealth. According to Locke, human labor is to be regarded as the principle source of wealth; according to Petty, labor and the land. Mercantilism, in other words, failed to understand the proper relationship between money and labor. The economic power which money possesses is conferred on it by people, which is to say, by the application of human labor. Labor's power is absolute, whereas money's power is a function of human goods. If there are no goods to buy, money loses its value. Conversely, if a country

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lacks what it needs:

then it will have to dispense with all of its money merely to keep body and soul together. A nation is not poor because it has no money, but it has no money because it is poor. Every consideration of the sources of wealth which are natural and direct will not place the primary emphasis on money.⁹⁰

Mercantilism led to an exaggeration of the importance of foreign trade and industry, without any understanding that:

Before a nation can . . . extend its trade relationships abroad, it has to reach the stage where and to the extent that the domestic economy is in a position to produce a surplus over and above its own needs, which surplus it can spare in taking care of its own population involved in production or in trade. Thus, the agricultural section remains the basis for the national economy. It is agriculture which by its bounteous production, makes possible a further development of the economic capacities for the nation.⁹¹

"One-sidedness," according to Pesch, "is always harmful; and that is true even if it comes into being to counteract an opposite one-sidedness." Mercantilism led to a neglect of agriculture, but in reacting to the errors of Mercantilism, the Physiocrats fell into errors of their own. They countered Colbert's one-sided emphasis on manufacturing with their own one-sided emphasis on agriculture as the sole source of wealth. In his *Essai politique sur le Commerce* published in 1734, Melon claimed that:

money by itself does not constitute all of wealth, but it serves as a symbol or a token for the rest of a nation's wealth (as Aristotle and Thomas Aquinas had already pointed out). Montesquieu called gold and silver fictitious wealth. For him, they were merely symbols of real wealth. After the conquest of Mexico and Peru, he said, the Spaniards abandoned true wealth to go chasing after the now newly found symbols of wealth, the value of which was already reduced precisely for that reason.⁹²

In claiming that the earth was the source of riches, Melon paved the way for the Physiocrats. Boisguillebert had already established the proposition that a nation acquires wealth and power by its agricultural population. Inasmuch as Melon saw in a nation's land and soil the foremost wealth of the country, farming was for him also the solid foundation of industry and commerce. Like Cantillon, Quesnay, and Adam Smith, Melon asserted that the overall well-being of the nation is to be judged according to the income of its rural population, not its cities. Quesnay referred to Physiocracy as the "System of Natural Freedom" and went on to claim that:

The wealth of the nation does not consist in money, but in the goods which are needed to live and for the annual reproduction of new goods. To be sure, every country required money as the means of circulation. But to increase money beyond what is needed for commerce makes no sense. The kind of wealth which is constantly being consumed and produced over again, that is true wealth. That is what one ought to strive to increase. Ultimately it can only be derived from

the earth.⁹³

In the absence of a sound philosophical framework, a valid insight about the nature of agriculture got distorted into another error. Quesnay and the Physiocrats were intellectually crippled because they thought that "*L'agriculture est la source de toutes les richesses de l'état.*"⁹⁴ Only the cultivation of the land increases the nation's wealth, not industry and commerce together with farming. Commerce, industry, and transport are to be considered as forming a "dependance de l'agriculture."⁹⁵ The materialist bias of physiocracy blinded its proponents from seeing net return from anything beyond "original production," i.e., agriculture, forestry, mining, fishing, etc. According to the physiocratic calculus of value. The entire production of industry is nothing more than "the 'addition' of agricultural values which already existed, and there is no increase in their amount."⁹⁶

If only agriculture can create value, then "the wages of labor are nothing other than the replacement of the labor power that has already been expended,"⁹⁷ that means, of course, that wages are condemned to remain at merely subsistence level, a doctrine that leads us directly to the "Iron Law of Wages," as elaborated by thinkers like Ricardo and Lassalle. Because of its materialist premises, physiocracy made capitalism even more inhuman in its exploitation of human labor and brought about the socialist reaction of the 19th century.

The physiocrats couldn't see that far into the future. Their intention was to help the farmer, and their hope that general prosperity would follow therefrom automatically, as if produced by a machine. Everything which harms agriculture also harms the nation and the king, and the correct national policy can be summed up in the phrase: "*Pauvre paysan, pauvre roi e royaume; pauvre royaume, pauvre roi.*"⁹⁸ Since higher grain prices lead to higher wages, and since higher wages lead to general prosperity, the condition *sine qua non* for national wealth was high grain prices.

Even though he admired many of their achievements, Smith came ultimately to the conclusion that the physiocrats were a "sect" because they felt that all wealth came from agriculture alone. Physiocracy played an important role in the development of economics into an independent science; nonetheless, "it is remarkable that men who had a keen grasp of what was useful in dealing with the essence of wealth still were unable to draw correct conclusions in the matter of productivity."⁹⁹ Agriculture is not the only productive activity:

To the work of the farmer must be added the activity of the miller and the baker so that bread is provided which can be eaten. Without the activity of the weaver, there would be no sense in the cultivator growing flax. And that applies everywhere. National wealth comes about from the surplus value which accrues from agriculture and manufacturing and commerce, and all three branches of

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economic activity deserve the protection of the state. Prosperity does not come about by valuing manufacturing over commerce, as the Mercantilists proposed, nor does it come about by privileging agriculture over manufacturing, as the physiocrats proposed, nor does it come about by rewarding commerce at the expense of both manufacturing and agriculture, as Smith would claim.¹⁰⁰

Pesch claims that Smith understood the value of labor but that his individualism blinded him from seeing that production not exchange was the source of value:

The development of economics into an autonomous science . . . was impaired by the unfavorable effect of naturalistic and rationalistic philosophy. Because of these influences people were not satisfied with establishing the autonomy of economics on the basis of a separate formal object . . . but instead they severed every bond between ethics and economics.¹⁰¹

The main motivation behind the English desire to sever the bond between ethics and economics was guilt. Whig history and Whig economics as its corollary came into existence to justify the looting of Church property and all of the subsequent acts of theft which were the source of Whig oligarch wealth. As a result:

What the English-Scottish school of moral philosophy came up with in the area of ethics basically served more to ward off the influence of valid, unfalsified ethics from economic life, than to strengthen its influence. It was clear that the young science was poisoned at its source, and the study of it had to be disassociated from very kind of basic guidance.¹⁰²

As if that weren't bad enough, both the Whigs and the Physiocrats fell under the fatal influence of Newtonian physics, which undermined the influence of the moral law in determining the parameters of economic exchange. This combination of English and French intellectual effort is known as the Enlightenment, and it found its economic expression in Smith's *magnum opus*, *The Wealth of Nations*. Economics was wrenched from its natural home in moral philosophy and forced onto the Procrustean bed of physics, where it became fatally infected with mechanism and materialism:

a system of economic individualism is for the first time established. Secondly, the persons, who in the economic regulation of their lives act consistently because they are guided by the motive of self-interest, resemble atoms with fixed properties; and the phenomena that result from their mutual contacts (in the market place and elsewhere in society) are mechanically determined like those that result from the mutual contacts of the atoms. It follows that political economy, like the realm of material nature, is governed by purely mechanical laws, by natural laws.¹⁰³

The physiocrats had gone to their own peculiar extreme by proposing a scheme that "represents agriculture as the sole source of the revenue and

wealth of every country,"¹⁰⁴ and they consequently regarded the labor deployed in commerce and industry as useful but essentially unproductive, in the sense that it simply returned to the land the value of the labor and capital resources on which it depended.

Quesnay's attachment to the idea that agriculture was the source of all wealth blinded him the creativity of labor in other realms of human endeavor. The ultimate source of wealth is the net product which results when human labor is applied in some form to God's creation. Net product is, according to Spann, "the surplus of yield over the cost of production."¹⁰⁵ No economic activity can be considered successful "unless it has resulted in a net product." Net product may be most apparent in agriculture, when a grain of wheat falls to the ground and produces a hundred-fold, but it is not missing from industrial labor, or for that matter intellectual labor. Net product can result from primitive labor as well: "If the spear proves a fruitful weapon in the chase, the hours spent in fashioning it are speedily outweighed by the time saved during the hunt. The hours thus gained during the whole lifetime of the spear constitute its net product."¹⁰⁶ Spann finds Quesnay's economic outlook wanting because it is "purely technical, materialistic, and is not truly scientific."¹⁰⁷ because "Every activity which engenders a good is economically fruitful."¹⁰⁸ As a further indication of the blindness which flowed from materialist premises, the physiocrats didn't understand the pernicious nature of usury:

In a letter to the French ambassador to Rome, who was later to become Minister Choiseul, Gournay emphatically defended doing away with the Church's ban on interest. To the detriment of Catholic nations, capital left them and moved to Protestant nations. The latter were thus in a better position to engage in international competition for commodities.¹⁰⁹

In place of the ban on interest, the physiocrats proposed legal regulation of the rate of interest. We see here once again the fruit of extrinsic, Newtonian science in the illusion that intrinsically evil actions, like usury, could be tamed by technique or the proper mechanism. The prohibition on usury had become incomprehensible because it was based on an "ought" that was essentially invisible to natural science because it could not be perceived by its instruments. The project of Moral Newtonianism which both Smith and Quesnay shared believed with all its mechanical heart that "moral phenomena . . . were to be conceived as mechanical laws of nature,"¹¹⁰ but there is no ought in nature, and any ought that is implicit there can only be derived from the is that is apparent with the help of the tradition of practical reason which the Enlightenment associated with the hopelessly discredited popish infamy.

The most antiquated of all Scholastic doctrines was the prohibition on usury; hence, it could not figure into Quesnay's *Tableaux*. Smith, be-

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ing more empirically inclined than his continental colleagues, would deal with the crushing burden of state debt in a moral vacuum which would leave the fundamental issue untouched. In spite of his admiration for the intelligence of the physiocrats, Smith was dismayed by "the narrow rigidity of Quesnay's system and felt that it was erroneous, utopian, and capable of provoking political unrest."¹¹¹ It was typical in Smith's mind of the panaceas concocted by "speculative physicians," who felt that "the health of the human body could be preserved only by a certain precise regime of diet and exercise, of which every, the smallest, violation necessarily occasioned some degree of disease or disorder proportioned to the degree of the violation."¹¹² Smith felt that the notion that errors of Mercantilism could be reversed by an act of state was not only unrealistic; it also gave a dangerous impetus to revolutionary ferment.

After Quesnay's death in 1774, dissensions broke out among the French physiocrats. The disputes paved the way for the collapse of physiocracy when Turgot fell from power in 1776. Turgot

had a well-developed theory of the role of money in the modern economy, but his blind spot was a failure to appreciate the benefits of central banking and paper money as developed in Amsterdam, Geneva and London, since like so many of his countrymen, he overreacted to the failure in 1720 of John Law's Mississippi Scheme, which had these features.¹¹³

Ross claims that "The encounters with the economic theorists of France can be considered the most exciting passage in Smith's intellectual development, second in importance only to his early contacts with Hume."¹¹⁴ Smith, however, "distanced himself from Quesnay, representing him in the final analysis not as a master to be followed, but as the doctrinaire head of a 'sect.'"

By the summer of 1766, the physiocrats had overcome their suspicions of Smith as an unknown, and Smith most probably would have been content to pick Quesnay's brains for the rest of his stay in Paris, but then the unexpected happened, and Smith had to ask for Quesnay's assistance in a way that he hadn't anticipated when Buccleuch's younger brother, Lord Campbell Scott, became seriously ill.

As part of the arrangement that allowed Smith to move Lord Buccleuch from the provinces to Paris in 1765, Lord Townshend had agreed to send Scott over as a travelling companion. Accompanying Scott was James MacDonald, scion of one of the main Jacobite clans which had taken part in the rising of 1745. Instead of subjecting the next generation of the MacDonald clan to the punishments meted out to those who took place in that rising, Humphrey Bland urged MacDonald's mother to send him to English schools instead, because

Bland thought that if James [MacDonald] were educated in England he might

become a good influence on Skye. "Brought up in right Protestant principles," James might "strengthen His Majesty's interest in those remote parts of the Highlands, and boot out Jakobitism from amongst his numerous clan."¹⁵

After weeks of hectoring MacDonald's mother, Bland persuaded her to send her son to Eton, where he began the educational career that would take him to Oxford, where he met the heirs of Dalkeith, and eventually to the continent where he and Campbell Scott met up with Buccleuch and Smith in Paris. Bland's bet eventually paid off handsomely and was more successful than the coercive measures Cumberland had used against MacDonald's forebears. Because of his education and his exposure to mentors like Adam Smith and David Hume, MacDonald "integrated himself quite effectively into Britain's social and intellectual elite."¹⁶ The education of James MacDonald was part of the social engineering imposed on the highland clans as a result of their conquest by Cumberland's forces. The Highland elites were sent to the schools like Oxford and the lower classes to vocational schools according to a system that would get replicated in America at the end of the 19th century. Public schools, modeled on the Presbyterian schools in the Highlands, were instituted to create docile workers, and elite schools like Harvard and their feeder prep schools were created to form the elites who would manage the system. Bland "used all the coercive power at this disposal to encourage migration, travel, and social mixing, with the ultimate aim of bringing James and the whole of his community closer to the English."¹⁷

Bland's successes in this instance were short-lived. Both Buccleuch's brother and James MacDonald, his travelling companion, died on the continent before they could return to England to put their experiences to use for the Empire. Smith's last contact with Quesnay had nothing to do with economics; it involved asking the court physician to save Lord Campbell Scott's life. Quesnay did what he could, but his efforts weren't enough to save Lord Scott, who died on October 19, 1766, leaving Smith with the unenviable task of escorting the body back to England. The body was interred at Dalkeith, but Smith remained in London to help Lord Townshend deal with problems in the colonies and the sovereign debt which was the ultimate cause of those problems.

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Chapter Sixty

Wealth of Nations

Smith returned to England in November 1766. For the next year, until Townshend's sudden death in 1767, both men would collaborate on coming up with a solution to the problem of sovereign debt. Hume arrived in London on February 20, 1767 to take up his post as Under Secretary of State in the Northern Department.¹ Together, Smith and his mentor could contemplate the growing storm in America and theorize about an economic solution to what they acknowledged was an insoluble problem. David Hume had raised the issue of unrepayable sovereign debt resulting from incessant wars in the *Political Discourses* of 1752. In 1764 Hume wrote, "either the nation must destroy public credit, or public credit will destroy the nation. It is impossible that they can both subsist, after the manner they have been hitherto managed, in this as well as in some other countries."² America was simultaneously a problem and an opportunity. On the one hand, the conflict with the colonies was moving year by year closer to armed insurrection. On the other hand, the possibilities for finding a means of raising revenue in a land which had none of the feudal impediments to wealth accumulation that had grown up over the centuries in Europe seemed intriguing to Smith, and he wrote the conclusion of his *magnum opus* with those opportunities in mind.

On April 15, 1767, Townshend submitted a budget that included a tax increase which would augment the sinking fund, i.e., reduce the sovereign debt to 400,000 pounds. Townshend was convinced that the colonies held the key to reducing Great Britain's sovereign debt and was determined to push through whatever measures were necessary to bring about that end. In May 1767, Townshend introduced resolutions in the House of Commons which suspended New York's elected assembly and imposed new taxes on the colonists, the most famous of which was a tax on tea which would lead to the Boston Tea Party six years later.³ In the sovereign debt section of *Wealth of Nations*, Smith, probably drawing on his collaboration with Townshend during the years 1766-7, expressed skepticism about any sinking fund's prospects for success, claiming that "though instituted for the payment of old debts, it facilitates very much the contracting of new debts."⁴

Smith and Townshend tried to convince the colonies that the debt accrued from wars which had been waged for their benefit, but this was disingenuous. Great Britain's sovereign debt, as Smith made clear in *Wealth of Nations*, went back not to 1763, when the Seven Years War ended, but to

1688, when the Whig regime began. In *Wealth of Nations*, Smith admits that: "It was the war which began in 1688, and was concluded by the treaty of Ryswick in 1697 that the foundation of the present enormous debt of Great Britain was first laid,"⁵ and, Smith continues, "from the time that we had first recourse to the ruinous expedient of perpetual funding, the reduction of the debt in time of peace has never borne any proportion to its accumulation in time of war."⁶

The history of Whig hegemony in Great Britain was, in other words, was nothing but a legacy of war and debt:

In the war which began in 1702 and which was concluded by the treaty of Utrecht, the public debts were still more accumulated. . . . The Spanish war, which began in 1739 and the French war which soon followed occasioned a further increase of the debt. . . . During the administration of Mr. Pelham, the interest of the public debt was reduced, or at least measures were taken for reducing it from four to three percent; the sinking fund was increased, and some of the public debt was paid off.⁷

During seven years of peace when the Pelham administration was determined to be prudent and patriotic about the financial burden which previous administrations had accumulated, Pelham was "not able to pay off an old debt of six millions." In fact, "During a war of nearly the same continuance, a new debt of more than 75 millions was contracted."⁸ Since Smith considered it "altogether chimerical, therefore, to expect that public debt should ever be completely discharged by any savings which are likely to be made from that ordinary revenue as it stands at present,"⁹ America would have to pay for the sins of their English fathers, but Smith undermined his own position. Since it was clear that the debt was unrepayable before the Seven Years War had even begun, it was disingenuous to use that war as an excuse for raising taxes.

The Bank of England made waging war easy and debt inevitable. The Bank of England gave England superiority over France, but that superiority came with a price tag, the price of perpetual unrepayable debt, which would eventually, because of the nature of compound interest, gobble up all of the government's revenues. The Bank of England, Smith stated bluntly, "enables Government to contract a very large debt of this kind."¹⁰ Smith thought taxation was a better means to fund wars because:

Were the expense of war to be defrayed always by a revenue raised within the year, the taxes from which that extraordinary revenue was drawn would last no longer than the war. . . . Wars would in general be more speedily concluded and less wantonly undertaken.¹¹

Unfortunately, taxes could not keep up with compound interest. As a result, the debt became a floating debt, which meant "it became necessary to charge it with the interest only, or a perpetual annuity equal to the inter-

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est, and such unprovident anticipations necessarily gave birth to the more ruinous practice of perpetual funding [which] laid the foundation of what has been called the sinking fund."¹² The sinking fund then provided the sovereign with the irresistibel temptation to incur more debt.

The inescapable problem is that it takes time to raise taxes, whereas the need to fight a war may be immediate, or as Smith wrote:

An immediate and great expense must be incurred in that moment of immediate danger, which will not wait for the gradual and slow returns of the new taxes. In this exigency, Government can have no other recourse but in borrowing.¹³

The Bank of England facilitated raising money in times of emergency, but the ease with which it could raise money facilitated the wars that created more and more debt. With a powerful instrument like the Bank of England at its disposal, the State, "Like an improvident spendthrift, whose pressing occasions will not allow him to wait for the regular payment of his revenue" became habituated to "the constant practice of borrowing of its own factors and agents, and of paying interest for the use of its own money."¹⁴

Debt, as a result, became the destroyer of nations, "gradually enfeebl[ing] every state which has adopted it" beginning with the Italian republics ¹⁵:

Genoa and Venice, the only two remaining which can pretend to an independent existence, have both been enfeebled by it. Spain . . . has . . . been still more enfeebled. The debts of Spain are of very old standing. It was deeply in debt before the end of the 16th century, about a hundred years before England owed a shilling. France, notwithstanding all its natural resources, languishes under an oppressive load of the same kind. The republic of the United Provinces is as much enfeebled by it as either Genoa or Venice. Is it likely that in Great Britain alone a practice which has brought either weakness or desolation into every other country, should prove altogether innocent?¹⁶

Sovereign debt leads inevitably to bankruptcy as the only means to liberate public revenue from the usury burden. That bankruptcy is sometimes "an avowed one, but always by a real one, though frequently by a pretended payment."¹⁷ Faced with unrepayable debt, most sovereigns resort to subterfuge, most commonly debasing the currency, which is nothing more than a covert bankruptcy. A "pretended payment" in debased coinage is worse than an open admission of bankruptcy because:

instead of alleviating, [it] aggravates in most cases, the loss of the creditors of the public, and without any advantage to the public, extends the calamity to a greater number of other innocent people. It occasions a general and most pernicious subversion of the fortunes of private people; enriching in most cases the idle and profuse debtor at the expense of the industrious and frugal creditor, and transporting a great part of the national capital from the hands which were likely to increase and improve it, to those which are likely to dissipate it and destroy it.¹⁸

An open and honest bankruptcy may be preferable to debasing the currency because it is "both least dishonorable to the debtor and least hurtful to the creditor,"¹⁹ but it was not a solution. Finding a solution meant finding someone to pay off the debt so that the creditors got their money plus interest, and that meant getting the colonies to pay. America was the only way out of this dilemma because it was not encumbered with the traditional tithes and could therefore afford to pay more taxes. Because of the enormous amount of free land then still available in America, the colonials "could therefore very well afford to pay a land tax."²⁰

Higher taxes, however, were only necessary over the short haul. Smith supported Townshend's policy of taxing the colonies to pay for the debt based on his hope that free trade over the long haul would compensate the colonies for the taxes they had to pay up front. Free trade, in other words, was the solution to the problem of unrepayable debt.

Smith tried to sweeten the tax burden on the colonies by including them in a free trade zone. Aware that there was in reality no solution to the problem of sovereign debt, Smith felt that taxation of the colonies and Ireland combined with the benefits of free trade was the best solution that could be hoped for under the circumstances. Free trade "would be in the highest degree advantageous to both" Ireland and the American plantations because "So great an expansion of market would soon compensate both to Ireland and the plantations all that they could suffer from the increase of the duties of customs."²¹

The main problem that blocked the implementation of Smith's plan for the colonies was political. Taxation in the English system demanded representation in Parliament, but unfortunately, "the private interest of many powerful individuals . . . seem . . . to oppose so great a change."²² But even if they were taxed without corresponding political representation, "It is not contrary to justice that both Ireland and America should contribute towards the discharge of the public debt of Great Britain" because:

That debt has been contracted in support of the government established by the revolution, a government to which the Protestants of Ireland owe, not only the whole authority which they at present enjoy in their own country, but every security which they possess for their liberty, their property, and their religion; a Government to which several of the colonies of America owe their present charters and consequently their present constitution, and to which all the colonies of America owe the liberty, security and property which they have ever since enjoyed.²³

Taxation, in other words, may be bad, but it is not as bad as popery, which is the condition the English speaking world be in if it hadn't borrowed the money to fight the wars resulting from the *coup d'état* known as the Glorious Revolution. Since deliverance from popery was the condition

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sine qua non which allowed the colonials and the Protestant Irish to accumulate their fortunes, they should be willing to pay for their privileges.

Smith concluded his peroration on the sovereign debt by claiming that taxation was the lesser of two evils, the greater being Catholicism and its pale simulacrum Anglicanism. America and Ireland should learn from “the middling and inferior ranks of people in Scotland,” who “gained a complete deliverance from the power of an aristocracy which had always before oppressed them”²⁴ through their union with the Whig Oligarchy which seized power in England in 1688. By joining the same Capitalist free trade zone, the ruling Protestant elites in America and Ireland could

gain an equally complete deliverance from a much more oppressive aristocracy; an aristocracy . . . founded . . . in the most odious of all distinctions, those of religious and political prejudices—distinctions which, more than any other, animate both the insolence of the oppressors and the hatred and indignation of the oppressed, which commonly render the inhabitants of the same country more hostile to one another than those of different countries ever are.²⁵

Parliament lost its nerve when faced with the prospect of insurrection in the colonies and withdrew the Stamp Act in 1766. Smith’s political involvement in the sinking fund ended for good when Charles Townshend died suddenly from “putrid fever”²⁶ on September 4, 1767. Smith had already returned to his mother and his native Kirkcaldy four months earlier, “preceded by four large cases of heavily insured books.”²⁷ After settling in, Smith wrote to Hume that “My business here is Study in which I have been very deeply engaged for about a month past. My Amusements are long, solitary walks by the Sea side. You may judge how I spend my time. I feel myself, however, extremely happy, comfortable and contented. I never was, perhaps, more so in all my life.”²⁸

Now financially independent, Smith was free to devote himself to organizing his thoughts on the new science of economics into the book later published as *Wealth of Nations*. In setting out on the intellectual odyssey that would eventuate in the publication of *Wealth of Nations* and the creation of the science of economics, Smith had Quesnay’s *Tableau économique* before his eyes as the most sophisticated treatment of political economy to date.²⁹ Smith and Quesnay both agreed that human labor was a more important source of a nation’s wealth than its store of gold and silver. Smith also agreed with Quesnay’s claim that natural liberty enhanced the circulation of goods and services in a way that increased wealth for everyone.

Smith, however, was aware of the shortcomings of the Physiocrats. Smith felt that all human labor, not just agriculture, was productive, and that its productivity was enhanced by the division of labor. Smith felt that “the ultimate source of a nation’s wealth lay in its stock of labour, and not its land as Quesnay had argued, and that it was a mistake to argue, as

Quesnay had done, that labor employed in manufactures was technically unproductive.”³⁰

Secondly, Smith felt that the physiocrats had taken the science of physics, which was the intellectual foundation of Moral Newtonianism, to its economic *reductio ad absurdum* by placing too much confidence in mathematics. Mathematics could describe unerringly the rate of fall of a feather in a vacuum or the trajectory of a projectile fired from a cannon because neither of those objects possessed free will. Mathematics had no relevance, however, to problems of practical reason because mathematics could not describe the inner logic of economic decisions:

Whereas Quesnay believed that economics could be turned into an exact, mathematically based science, Smith remained firmly committed to the Humean view that systems of philosophy could only appeal to the understanding, and that their credibility in the eyes of their readers would depend on the philosopher’s ability to illustrate his principles with examples drawn from life and history.³¹

Smith was enough of an empiricist to know that the setting of price, “the central problem of classical and neo-classical economics,”³² was determined by the “higgling and bargaining” of the marketplace, which is to say, by the free wills of the “higglers” and therefore not something that was determinable by some mathematical algorithm of the sort that Newton applied to the motion of the planets. Smith was heavily invested in the project of moral Newtonianism, but he was also empirical enough to understand that the basis of the economy lay in the free wills of its agents, something that was true even if it contradicted the Newtonian philosophical framework that both Smith and Quesnay shared. Smith concluded that: “Quesnay’s claims that the system of circular flow worked on mathematical principles were unjustified, and possibly dangerously mechanistic—questions of price and value were regulated by ‘higgling and bargaining,’ not mathematically necessity.”³³

Moral Newtonianism reared its ugly head most clearly in Smith’s appeal to the “invisible hand.” Smith avoided Quesnay’s errors but, crippled by Newtonian physics as the philosophical foundation of his economic science, he fell into errors of his own, when he claimed that the economy could be “viewed as a machine governed by the price mechanism.”³⁴

Once again Smith’s Newtonianism contradicted his empiricism and introduced a duality into his analysis that made it incoherent. The philosophical incoherence latent in Smith’s thinking became apparent in the writings of Smith’s readers and followers. Smith was not a free-trader. Free trade, as espoused by the “Manchester School” under the leadership of Cobden and Bright, was based on Ricardo’s ideas, not Smith’s, but Ricardo got the idea from Smith’s suggestion that free trade for the colonies was the solution to Great Britain’s debt. Nor did Smith propose the “Night Watch-

man State" praised by the Manchester School. Smith claimed that labor was the ultimate source of a nation's wealth and warned that:

Whenever the legislature attempts to regulate the differences between masters and their workmen, its counselors are always the masters. When regulation, therefore, is in favor of the workmen, it is always just and equitable, but it is sometimes otherwise when in favor of the masters.³⁵

As a result of that disparity, the state was justified in making laws which protected labor, something the Manchester School would have viewed with horror. That meant that "the law which obliges the masters in several different trades to pay their workmen in money and not in goods, is quite just and equitable."³⁶ On the other hand, Smith dismissed the feudal protection of labor as the maintenance of "unnecessary mouths,"³⁷ a phrase that would acquire a more sinister meaning when Parson Malthus got ahold of it. Smith

was sensitive to the need for intervention in other markets namely those for "labor land rental and public works" in part out of a concern for the "happiness and comfort of the lower orders of society" which Malthus for example considered "ill judged."³⁸

In spite of his support of labor, Smith could be cited to justify the enclosure movement when he wrote:

By the removal of unnecessary mouths, and by exacting from the farmer the full value of the farm, a great surplus . . . was obtained for the proprietor, which the merchants and manufacturers soon furnished him with a method of spending upon his own person in the same manner he had done the rest.³⁹

Similarly, Smith saw no contradiction between his position on labor and his position on usury, a disparity which Jeremy Bentham brought out in his *Defence of Usury*. Smith felt that high interest rates would discourage speculation by the more reckless "projectors," but in making this claim, he was appealing to a moral tradition that he had fatally undermined. Once again Smith was caught between his ideology of freedom based on moral Newtonianism and his practical understanding of the economy, which told him that speculation based on easy credit was a disaster waiting to happen for any economy. Bentham was correct in seeing that Smith's support of high interest rates was not supported by his avowed principles, and that "in refuting Smith's arguments about the 'policy of the laws fixing the rate of interest,' he is turning his master's weapons against himself."⁴⁰

The usury question would haunt Smith in an unforeseen way, when Smith's timetable in completing *Wealth of Nations* was disrupted by the collapse of the Ayr Bank in 1772. The Ayr Bank, formally known as Douglas, Heron, & Co., opened its doors on November 6, 1769 in order to capitalize on the ongoing economic boom in Scotland which resulted from the

Act of Union. One of the principal investors in the Ayr Bank was Lord Buccleuch, Smith's former pupil and traveling companion, who joined the Dukes of Queensbury and Dumfries in a venture which was created to fund land improvement schemes but did not involve limited liability to protect the major investors. That combined with the fact that the Ayr Bank "was more liberal than any other had been, both in granting cash accounts and in discounting bills of exchange"⁴¹ spelled trouble at the first sign of economic crisis.

On 8 June 1772, a London bank which had extensive dealings with the Ayr Bank collapsed. When the news reached Edinburgh four days later there was a financial panic, resulting in a run on the Ayr Bank for specie, and it was forced to suspend payments on June 25. Buccleuch suddenly found himself dangerously exposed when he and Queensbury and Dumfries were sued for 300,000 pounds by the Bank of England. In the end, Buccleuch had to liquidate 750,000 pounds worth of real estate to settle his debts, in a process that would take over 60 years to resolve.

Hume and Smith discussed the matter after the fact, in the manner of Monday morning quarterbacks. Ever the philosopher, Hume wondered: "Do these events any-wise affect your Theory? . . . On the whole I believe that the Check given to our exorbitant and ill grounded Credit will prove of Advantage in the long run, as it will reduce people to more solid and less sanguine Projects, and at the same time introduce Frugality among Merchants and Manufacturers; What say you?"⁴² Smith, as usual, agreed with Hume and tried to see the silver lining by claiming that if the Ayr Bank had prospered as a "mercantile company," acting as a "general loan office for the whole country," its debtors would have been "chimerical projectors, the drawers and redrawers of circulating bills of exchange, who would employ the money in extravagant undertaking."⁴³ This was variation on the argument in favor of high interests rates which Bentham had found so unsatisfying.

This idle speculation must have provided small consolation to Buccleuch. As in other instances, Whiggery trumped economic common sense. Because of his penchant for moral Newtonianism, Smith failed to see the dangers inherent in usury. Without the support of a central bank, banks invariably lent out money that could not be repaid, and that money could not be repaid because of the inherently destructive effect of compound interest, which is why traditional thinking going all the way back to the Pentateuch had made usury illegal.

But here once again Smith was caught between economic reality, as evidenced in the Scholastic ban on usury which had been normative in Catholic countries throughout Europe for over a thousand years, and the Whig ideology he was being paid to promote. The essence of the conflict

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between the Whigs and the Jacobites revolved around the willingness of the sovereign to enforce usurious contracts. Smith concluded that Capitalist countries were more powerful than Catholic countries like France or the Highlands of Scotland; which did not enforce usurious contracts in any systematic legal way, because they abound "with merchants and manufacturers," a "set of people who have it at all times in their power to advance, . . . a very large sum of money to Government. Hence, the ability in the subjects of a commercial state to lend."⁴⁴ Once they are guaranteed payment on their loans by the sovereign's pledge to honor usurious contracts, the lenders

do not even for a moment diminish their ability to carry on their trade and manufactures; on the contrary, they commonly augment it. The necessities of the state render government upon most occasions willing to borrow upon terms extremely advantageous to the lender.⁴⁵

To question the Whig insistence on enforcing usurious contracts was tantamount to calling the entire Glorious Revolution into question, something Smith was constitutionally incapable of doing, even though he adds in the same passage: "The progress of the enormous debts which at present oppress, and will in the long run probably ruin all the great nations of Europe has been pretty uniform."⁴⁶ Capitalism meant the enforcement of usurious contracts, and that meant that Smith had to ignore the pernicious effects of compound interest and usury, and that meant that Buccleuch had to learn his own economic lessons in the expensive school of experience.

The villain in the *Wealth of Nations* is not the usurer; it is the feudal lord, who held back economic progress on the continent for over a millennium. Instead of putting their money to use promoting foreign commerce or "the finer manufactures,"⁴⁷ the Highland lairds wasted "the greater part of the produce of his land which is over and above the maintenance of the cultivators," on "rustic hospitality at home." The lairds wasted their money by purchasing the loyalty of their retainers, and it was upon this basis that "the power of the ancient barons"⁴⁸ was founded. As a result, the Highland lairds were beyond the reach of the capitalist economy because it was impossible to enforce usurious contracts when they were the debtors. In Smith's eyes the ethnic solidarity of the Jacobite Catholic Highland Scots was the major roadblock to economic progress, because, as Smith put it:

To have enforced payment of a small debt within the lands of a great proprietor, where all the inhabitants were armed and accustomed to stand by one another, would have cost the king, had he attempted it by his own authority, almost the same effort as to extinguish a civil war.⁴⁹

Feudal Highland culture made rebellion easy because it circumvented the money economy and had direct access to labor. Smith was astounded by the fact that "Mr. Cameron of Lochiel, a gentleman of Lochabar in Scot-

land . . . a vassal of the Duke of Argyle" never received more than the paltry sum of 500 pounds a year rent, and yet in 1745 this same laird could nonetheless lead "800 of his own people into the rebellion with him."³⁰

Smith's job in *Wealth of Nations* was to explain how Capitalism had changed all that in Scotland and could bring about similar changes in the rest of the world through the peaceful effects of Whig culture. Smith construed capitalism's destruction of ethnic culture in a positive light, and felt that it could be put to use as an agent for universal reform, an idea Smith got from Hume:

Commerce and manufactures gradually introduced order and good government, and with them the liberty and security among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbors, and of servile dependency upon their superiors. This, though it has been the least observed, is by far the most important of all their effects. Mr. Hume is the only writer who, so far as I know, has hitherto taken notice of it.³¹

Over the course of the 18th century, the landowning class had been seduced into surrendering their political power by abandoning their support of labor in favor of consumerism, something Smith symbolizes by "a pair of diamond buckles":

For a pair of diamond buckles, perhaps, or for something as frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be their own, and no other human creature was to have any share of them; whereas in the more ancient method of expense, they must have shared with at least a thousand people. . . . And thus for the gratification of the most childish, the meanest and the most sordid of all vanities, they gradually bartered their whole power and authority.³²

Smith's understanding of the social use of property which the Church had instituted in England and Scotland in the 900 years preceding the Reformation contradicts his understanding of labor as the source of a nation's wealth. Instead of seeing feudalism and the rehabilitation of labor which it brought about by implementing the principle implicit in the Benedictine motto of "*ora et labora*," and instead of seeing feudalism as a refutation of the system of slavery and usury which had brought about the collapse of the ancient world, Smith dismissed the Highland lairds as frivolous supporters of "unnecessary mouths."

Smith's explanation of how the landowning class was seduced by Capitalism had a curiously Mandevillian ring to it. It also recalled the worst excesses of the enclosure movement when thousands of peasants who had made their living off of common lands were expelled from the land to gratify the greed of the Protestant looters. Smith sees something positive in

this dispossession and looting of labor because it lends itself to economic progress, which he equates with the accumulation of useless wealth, symbolized by "a pair of diamond buckles." Private vice has led to public good, as the Whigs defined that term. The benefits of the looting which begat Capitalism in England were late in arriving in out of the way places like the Scottish Highlands, but it was Smith's job to explain how Capitalism was inevitable there too. In fact, Capitalism was inevitable everywhere.

The inescapable conclusion which Smith drew from his analysis of economic history was that the sovereign had to enforce usurious contracts because when he didn't, it put:

all borrowers nearly upon the same footing with bankrupts or people of doubtful credit in better regulated countries. The uncertainty of recovering his money makes the lender exact the same usurious interest which is usually required from bankrupts. Among the barbarous nations who overran the western provinces of the Roman empire, the performance of contracts was left for many ages to the faith of the contracting parties. The courts of justice of their kings seldom intermeddled in it. The high rate of interest which took place in those ancient times may perhaps be partly accounted for from this cause.⁵³

The Scottish Enlightenment's sense of humane and benevolent mission also finds expression here. Capitalism was superior to military force in eliminating backward popish ethnic cultures. Feudal customs led to "that state of property and manners from which the disorders"⁵⁴ of 1745 arose, and those customs made military intervention necessary. Capitalism, on the other hand, made further military intervention unnecessary because:

what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers.⁵⁵

One of the first casualties caused by moral Newtonianism was a clear understanding of the problem of usury. Once physics replaced practical reason as the guide for economics, usury lost its moral odium and a calculus of costs and benefits took the place of moral censure. Given the moral vacuum in which he operated, all Smith could claim was that prohibition of usury or the failure to enforce usurious contracts simply drove up interest rates. He also said that it enfeebled every state which allowed those debts to accumulate, but bringing the two ideas together into a coherent system was beyond his power. Smith, as Bentham pointed out, was against usury, if by that we mean the exaction of exorbitant interest on a loan, but he was in favor of high interest rates because they discouraged speculation and utopian projects. Smith, however, dismissed the notion that law could or

should prevent taking “moderate” compound interest on a loan as hopelessly utopian:

When the law prohibits interest altogether, it does not prevent it. Many people must borrow, and nobody will lend without such a consideration for the use of their money as is suitable, not only to what can be made by the use of it, but to the difficulty and danger of evading the law.⁵⁶

Rather than banning usury, Smith attempted to tame it by formulating certain rules: “The lowest ordinary rate of interest,” Smith wrote, “must, in the same manner, be something more than sufficient to compensate the occasional losses to which lending, even with tolerable prudence, is exposed.”⁵⁷ Needless to say, none of these rules of thumb helped Buccleuch and others involved in the collapse of the Ayr Bank, but articulating them further delayed the completion of Smith’s book.

In 1773 Smith moved to London to complete *Wealth of Nations* with the intention of adding news from America as his justification for the free trade policies at the heart of his economic theory. The problems which Townshend had grappled with during his brief tenure as chancellor of the exchequer had not gone away during the six years Smith had spent in Scotland. If anything, they had grown worse as Parliament found itself between the rock of sovereign debt and the hard place of American revolution, if it insisted on having the colonies pay for it.

Smith arrived in London in May 1773 and took rooms in Suffolk Street near Charing Cross and the British Coffeehouse, in the Scots quarter of town. Buccleuch wrote to Hume explaining that Smith was now “very zealous in American Affairs.”⁵⁸ Hume was content to view the conflict from afar and remained in Edinburgh, where he would die of cancer three years later.

Without the socially adroit Hume to open doors for him and smooth his way, Smith was handicapped in pursuing his agenda. The English weren’t going to make allowances for his lack of grace, as the French had done ten years earlier. What the French considered piquant, London society considered oafish. Samuel Johnson claimed that Smith was “as dull a dog as he had ever met with” and commented that he was “a most disagreeable fellow after he had drank some wine,” which, he said, “bubbled in his mouth.”⁵⁹

Smith hoped that his theories would seize Parliament’s attention and influence its members to support a peaceful resolution of the conflict, but the train of events in the colonies was evolving faster than Smith’s ability to incorporate them into his book.

On December 16, 1773, a group of Bostonians known as the Sons of Liberty dressed up like Mohawk Indians and dumped a shipload of tea into Boston harbor rather than pay duty on it:

The Tea Act, which American radicals saw as an attempt to strengthen British

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fiscal rule over the colonies, had been passed shortly before Smith's arrival in London. The Boston Tea Party, the Coercive Acts of 1774, and the Quebec Act of 1774, which raised fears in the colonies that the British were determined to govern America without elected assemblies, the subsequent outbreak of hostilities at Lexington and Concord in 1775, and the eventual outbreak of an initially popular war, were to give him a unique perspective on a crisis that suggested that Britain's future as a commercial power was at a turning point.⁶⁰

Convinced that capitalism could resolve the American issue in the same way that it had resolved the Jacobite issue in Scotland, Smith opposed the punitive measures which Parliament was proposing at the time. Smith was convinced that his theory of the free market could "end the cycle of violence caused by attempts to maintain the old colonial system,"⁶¹ which is probably why he would characterize *Wealth of Nations* as "very violent attack upon the whole commercial system of Great Britain."⁶²

Unfortunately, Parliament wasn't listening. On March 7, 1774, George III asked Parliament to grant him the power to take whatever measures were necessary to "stop the violent and outrageous Proceedings at the Town and Port of Boston."⁶³ By June, four coercive bills had been passed, including one which specified that soldiers could be quartered on the civilian population at their expense to quell civil unrest.

In response to the Boston Tea Party, General Thomas Gage placed a naval blockade over Boston harbor in May of the same year. These measures led the Virginia House of Burgesses in Williamsburg, under the leadership of Patrick Henry, to convoke a Continental congress of delegates from the thirteen colonies, which met in Philadelphia from September 5 to October 26 and demanded that Parliament address American grievances. The Continental Congress passed a resolution in support of the Massachusetts Bay Colony, and it also agreed "not to import or use British goods until the 'Intolerable Acts' were repealed."⁶⁴

The major issue driving the conflict was sovereign debt and who was to pay for it, which became apparent when the Continental Congress "petitioned the King to restore the colonial arrangements in force at the end of the Seven Years War in 1763,"⁶⁵ i.e., before Townshend and Smith tried to make them pay off the debt.

By the time *Wealth of Nations* was published on 9 March 1776, armed hostilities had already broken out in the colonies, which would formally proclaim their independence four months later, on July 4. The deteriorating situation in America, however, did nothing to impede the sales of Smith's magnum opus, which would become a best-seller during his lifetime even though individual copies sold for the steep price of 1 pound 16 shillings.

Wealth of Nations was a *succès d'estime* as well. John Millar claimed that Smith "deserved to be regarded as the Newton of the science of politics."⁶⁶ Thomas Pownall, who had served as Governor of the Massachu-

setts Bay Colony that was now leading the American rebellion, compared *Wealth of Nations* to Newton's *Principia Mathematica*, claiming that Smith had done for human society what Newton had done for celestial mechanics.⁶⁷ Pownall claimed that Smith had created "a system that might fix some first principles in the most important of sciences, the knowledge of the human community and its operations. That might become principia to the knowledge of politick operations; as Mathematicks are to Mechanicks, Astronomy and other Sciences."⁶⁸

The accolades have continued for over two centuries. Writing over 100 years after the publication of *Wealth of Nations*, Alfred Marshall claimed, in his *Principles of Economics*, that "even though there is no doubt but that he borrowed much from others, it becomes clear, the more we compare him with them, that his genius is greater, his knowledge broader, and his judgments keener than those who came before him and after him."⁶⁹ Two hundred years after its publication, *Wealth of Nations* was invoked as the solution to the economic malaise in eastern Europe after the fall of Communism in 1989.⁷⁰ Ross claims that *Wealth of Nations* was "Smith's masterpiece," as well as "his legacy for . . . future ages." *Wealth of Nations*:

presents a seminal account of market economic theory, a civil history of Europe explaining why its economic growth has been restricted, and prudent advice regarding economic management and growth, also about the support of institutions necessary for a free market society to function and flourish.⁷¹

Like Alfred Marshall, Heinrich Pesch praised Smith's achievements, but he was also aware of Smith's shortcomings. From a stylistic point of view, Smith "broke the sequence of his train of thoughts completely" by the "significant digressions"⁷² which plague his book.

But for all of his shortcomings, Adam Smith got the modern science of economics off on the right foot when he announced in the first sentence of *Wealth of Nations* that:

The annual labor of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labor, or in what is purchased with that produce from other nations.⁷³

If he had never written another word about political economy, Smith would have earned the distinction of setting the science of economics on its proper trajectory by that one sentence alone. Economics is not chrematistics; it is not the science of how to increase the amount of money in an individual's pocket. It is the science which explains the role which labor plays in creating wealth in a nation. There can be no science of economics, in other words, without an understanding of labor and the nation state. Labor, according to Smith, "is the real measure of the exchangeable value of all commodities." Labor is "the real price of everything." That "real price" signifies:

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what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What it bought with money or with goods is purchased by labor as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labor which we exchange for what is supposed at the time to contain the value of an equal quantity.⁷⁴

In addition to all that, labor is:

the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labor that all the wealth of the world was originally purchased; and its value, to those who possess it and who want to exchange it for some new productions, is precisely equal to the quantity of labor which it can enable them to purchase or command.⁷⁵

Labor is superior to gold and silver in establishing the value of any commodity because "gold and silver. . . like any other commodity, vary in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase."⁷⁶ Labor alone, therefore, never varying in its own value, is the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.⁷⁷ Labor is "the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and places."⁷⁸

At this point, Smith's tendency to digress got the better of him, and the profundity of Smith's opening sentence got derailed by a long discussion of the division of labor. In going off on this tangent, Smith missed the bigger and more important point, namely, that labor, even primitive labor without the benefit of specialization, creates value. Smith mistakes the part for the whole when he writes: "It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions in a well governed society, that universal opulence which extends itself to the lowest ranks of people."⁷⁹ Smith then sets up the false dichotomy of benevolence vs. self-interest, which takes the entire discussion into the rabbit warren of 18th century English philosophy, as it was affected by Bernard Mandeville's "Fable of the Bees," when he writes:

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.⁸⁰

The Jesuits proved that benevolence and economic progress are not

mutually exclusive by creating the Reductions in Paraguay. That economy was exceptional because of its novelty, but it could not have come into existence without a love that was anything but selfish. Smith, unlike his hero Voltaire, never mentions the Jesuit Reductions in Paraguay. This is a pity because benevolence and not self-love is what made that economic system possible, something that would have been obvious to an empirical mind like Smith's. With Paraguay before him, Smith could have broadened his economic system by basing it on something other than the experiences of the Whig tobacco merchants in Glasgow. But in the final analysis the man who was the friend of Voltaire and who bragged that his family had kicked the pope and the Pretender out of Scotland was unlikely to see anything good coming from the Society of Jesus. More to the point, Smith was condemned to create the type of economic system which his philosophical and theological presuppositions allowed him to create. Heroic virtue of the sort practiced by the Jesuits in North and South America, redemptive suffering, and even love of neighbor were concepts alien to the Scottish Enlightenment in general and Smith's thought in particular. Smith's thought was, in fact, so circumscribed by the neopaganism of Moral Newtonianism that he missed the theological significance of human labor as well. In spite of the promising beginning of *Wealth of Nations*, Smith ended up at odds with the principles of his own system because he had been crippled by the philosophical framework he had brought to bear on them.

Smith's description of the benefits accruing from the division of labor is full of true statements, e. g., the "extent of this division must always be limited to the extent of that power, or, in other words, to the extent of the market" which are nevertheless beside the point because the ability of labor to create value is intrinsic to labor itself and not dependent on the division of labor, which magnifies but does not create what is there in the first place.

Smith then lets the cat out of the bag. Everything that Smith says in *Wealth of Nations* is contextualized by his attack on the feudal, landed aristocracy of the Highlands, where there is no division of labor, and hence no possibility for economic progress: "In the lone houses and very small villages which are scattered about in so desert country as the Highlands of Scotland, every farmer must be a butcher, baker, and brewer for his own family."⁸¹

What distinguishes the Highland from the Lowland Scots is not labor but the division of labor, hence the inordinate role which division of labor plays in Smith's economic system. In formulating the modern science of economics, Smith got caught up in the crossfire between truth and ideology. Every insight into economics—and there are many in *Wealth of Nations*—must ultimately be construed in light of the interests of the Whig, Presbyterian, Lowland Scot oligarchs who made Smith's career. *Wealth of*

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Nations becomes as a result a vindication of the punitive measures which Cumberland took in the wake of the Jacobite rising of 1745. Whig ideology constantly contextualizes and, as a result, vitiates economic insight. When Smith tells us that "It is impossible there should be such a trade as even that of a nailer in the remote and inland parts of the Highlands of Scotland," we can't help but feel that Cumberland was justified in doing what he did because the Highland Scots were holding back economic progress.

No matter how much ideology distorted Smith's views, Smith should not be confused with the excesses which later crept into the system he created. He is no proponent of the Manchester School or its Night Watchman State. He was forthright in defending the rights of labor or wages over and against the power of profit or the employers, who always hold the upper hand over labor. Smith contradicts one of the main tenets of the capitalist theoreticians who came after him by claiming 1) that there is a just price for labor, thus re-introducing into economics the moral tradition which Newtonianism had driven out, and 2) that the just price of labor is a living wage, i.e., not subsistence but the wage which allows a man to support a family. The just price of labor, in fact, is "at least double" a subsistence wage:

A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. Mr. Cantillon seems, upon this account, to suppose that the lowest species of common laborers must everywhere earn at least double their own maintenance, in order that one with another they may be enabled to bring up two children.⁸²

It follows then that the prosperity of any nation is dependent upon "the liberal reward of labor," which is both "the necessary effect" as well as "the natural symptom of increasing natural wealth." Conversely, "The scanty maintenance of the laboring poor . . . is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards."⁸³

Wealth is not static, which is the illusion engendered by associating it with stores of gold and/or silver; it is dynamic because it is based on human labor. A comparison between the situations in North America and England shows that:

It is not, accordingly, in the richest countries, but in the most thriving or in those which are growing rich the fastest, that the wages of labor are the highest. England is certainly in the present times, a much richer country than any part of North America. The wages of labor, however, are much higher in North America than in any part of England.⁸⁴

All of the corollaries Smith articulated about human labor flow from the first sentence of his book: labor is the source and measure of the wealth

of the state. That means that there can be no prosperity without decent wages:

No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well fed, clothed, and lodged.⁸⁵

If the liberal reward of labor encourages industry, and industry is the source of prosperity because labor is the source of value, then slavery is not efficient because it is costly and because it discourages industry. The work done by slaves only appears to be cheap; in reality it is "the dearest of any" form of labor.⁸⁶ Smith firmly believed "that the work done by freemen comes cheaper in the end than that performed by slaves. It is found to do so even at Boston, New York, and Philadelphia, where the wages of common labor are very high." The fact that the Quakers emancipated their Negro slaves is further proof of this fact in Smith's mind.⁸⁷

Other corollaries follow as well. Since labor, not silver or gold, is the ultimate source of the prosperity of a nation, "no large country . . . ever did or could subsist without some sort of manufactures being carried on within it."⁸⁸ Alexander Hamilton would come to understand this sentence in his own way by contradicting Smith's free trade views and creating a system of protected manufactures when the American colonies finally broke free from England.

Everything revolves around "the liberal reward of labor," which becomes the effect of increasing wealth and the cause of increasing population. To complain about "the liberal reward of labor" is "to lament over the necessary effect and cause of the greatest public prosperity."⁸⁹ Unlike slavery, which discourages industry and encourages consumption, the liberal reward of labor "increases the industry of the common people. The wages of labor are the encouragement of industry, which like very other human quality, improves in proportion to the encouragement it receives. . . . Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious than where they are low."⁹⁰

The infallible sign that labor has been rewarded justly is population increase. If that is the case, then the British colonies in North America were more prosperous than their mother country, even though the latter had more money. As a result, population in the Old World, took almost 500 years to double, whereas in America, "it has been found that they double in 20 or 25 years."⁹¹ Here as in other economic areas, one benefit creates another, creating a synergy that is the opposite of a vicious circle. In this instance, increasing population creates increased demand for goods, which is an incentive to more liberal reward of labor. One economic benefit leads

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to another. Population growth and prosperity go hand in hand, because

If this demand [for labor] is continually increasing, the reward of labor must necessarily encourage in such a manner the marriage and multiplication of laborers as may enable them to supply the continuing increasing demand by a continually increasing population.⁹²

If Smith had based his economic system on the solid philosophical foundation which the Jesuits used in Paraguay, he might have taken these insights further, but he didn't, and that meant that sooner or later Smith was going to run into difficulty. In fact, Smith gets in trouble as soon as he gets involved in a discussion of the relationship between labor and price.

In order to explain the difference between price based on the labor which went into an object and the actual price an economic actor was willing to pay in the marketplace, Smith introduced the paradox of value, which specifies that "Things like water, which have the highest possible use value, have no exchange value and conversely, things with very little use value, like diamonds, have a very high exchange value." Emboldened by the lesson of the paradox of value, Smith felt that he could undertake "for the first time a study of the laws of exchange value."⁹³ At the end of this discussion, Smith concludes that "it is the nominal or money price of goods, therefore, which finally determines the prudence or imprudence of all purchases of sales, and thereby regulates almost the whole business of common life in which price is concerned."⁹⁴

Smith claimed that individual acts of free will led to the creation of price on the micro level but that on the macro level these decisions could be codified mathematically because of the operation of the invisible hand: "If the economy is involving a market for commodities and labor, then the outcomes, though unintended, will be amenable to law, and can be analyzed by the tools successfully employed in the natural sciences, especially physics."⁹⁵

The predictability of large numbers of independently made decisions is based, however, on probability, which, whatever its validity, is most certainly not the basis of Newtonian physics. The calculation of the rate of fall of a feather in a vacuum is not based on probability. Conversely, no mathematical algorithm is going to be able to calculate price with the certainty of Newtonian physics because price is based on acts of the will which are not mathematically measurable.

After concluding that "In this state of things, the whole produce of labor does not always belong to the laborer,"⁹⁶ Smith should have busied himself with coming up with a rule of thumb about how surplus value was to be divided equitably between wages, rent, and profit. Instead, influenced by "the beauty of systematical arrangement of different observations connected by a few common principles," which is to say the project of moral

Newtonianism, Smith in effect abandoned all of his insights into labor as the source of wealth and focused on price mechanisms instead. The source of this lapse was ideology. Smith could not integrate economic truths into a coherent economic system because of the false philosophical principles which served as his system's foundation.

The influence of the Whig oligarchs becomes apparent when Smith writes that "Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society." Once every man gets defined as "in some measure a merchant," labor then gets defined in terms of price. As a result, exchange not production became the *spiritus movens* of the economy. In becoming the most important factor in the economy, price determines production and not vice versa. That meant that "prices decide which among would be purchasers have sufficient purchasing power. The laws of prices settle how goods should be distributed. In a word, the laws of prices are also the laws of distribution." By overemphasizing price formation as the mainspring of the economy, Smith shortchanged labor:

How can the economic picture fail to be distorted and falsified when looked at exclusively from the standpoint of exchange? We are told to regard calculations of value and price as economically creative; whereas in verity production and achievement form the primary source of value. Beyond question, this is the economics of a shopkeeper.⁹⁷

Or a Whig. Smith was always getting distracted by his own metaphors. His claim that every man was the "merchant" of his own labor" undermined his labor theory of value. Property had a similarly disruptive effect on his narrative. When he wrote that "The property which every man has is his own labor, as it is the original foundation of all other property, so it is the most sacred and inviolable,"⁹⁸ he once again undermined his theory of labor by giving an undeserved primacy to property. Thieves own property, but that fact does not erase their crime in attaining it.

Similarly, Smith changed horses in midstream when he seemed to make "the natural parsimony of the improver," which he characterizes as "the principle which prompts to save," as something which "comes with us from the womb, and never leaves us till we go into the grave"⁹⁹ and not the labor of the worker the source of wealth. Once again, shopkeeper economics distorted his system and vitiated his understanding of labor and its relation to the national economy.

The shopkeepers in America were becoming increasingly unhappy with the British commercial system. Four months after the publication of *Wealth of Nations*, on July 4, 1776, the Continental Congress issued America's Declaration of Independence and war ensued. The war was a tragedy for Smith because he felt that the "small proprietor," like the ones leading

the rebellion in the North American colonies, was “generally of all improvers the most industrious, the most intelligent and the most successful.”¹⁰⁰ America was, therefore, Smith’s great hope. According to Smith, “The discovery of America, and that of a passage to the East Indies are the two greatest and most important events recorded in the history of mankind.”¹⁰¹ America was an actual instance of Smith’s ideal society, something he claimed would be characterized by “peace, easy taxes, and a tolerable administration of justice.”¹⁰² The Newtonian ideal state was most likely to be realized in America, which was the one place on earth where wealth would naturally be created in an ideal society operating according to the “obvious and simple system of natural liberty.”¹⁰³

Smith, unsurprisingly, came down on the side of the Americans in their conflict with the mother country: “To prohibit a great people, however, from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves is a manifest violation of the most sacred rights of mankind.”¹⁰⁴ His masterstroke was to introduce the experience of colonial America as the classic, and indeed the only possible, example of a society whose progress had been rapid and natural by comparison with that of Europe.

In his eyes, the root cause of the American colonies’ progress was simple enough. They had:

plenty of good land, and liberty to manage their own affairs in their own way. American land was cheap and inheritance . . . was unencumbered by primogeniture, entails and high taxes. The colonists themselves appeared educated, frugal, tractable, and hardworking. . . . Americans . . . were natural Smithian improvers who invested their stock in agriculture and simple manufactures and, because labor was relatively scarce, paid their laborers relatively high wages, which encouraged them to set up on their own. Above all they possessed a spirit of equality that encouraged a “republican” attitude to government.¹⁰⁵

Smith’s hopes for a reconciliation between the colonies and the mother country based on free trade principles were dashed forever on October 17, 1777 when “Gentleman Johnny” Burgoyne surrendered at Saratoga. Burgoyne’s defeat marked a turning point in the war.¹⁰⁶ In the wake of Saratoga, the French decided to enter the war on the side of the Americans. The British government consulted with Smith in February 1778 in the wake of Burgoyne’s defeat, but by this point in the war it had become too committed to military measures to back down. Had Smith’s free trade proposals been implemented in 1766 when the government backed down from the Stamp Act, they might have succeeded in defusing the rebellion, but by 1778 it was too late to implement them, and a military solution to the conflict was inevitable. The French naval blockade that began after Bur-

goyne's defeat would prove decisive to the final defeat of the British troops when Cornwallis got trapped on the Yorktown peninsula and surrendered in 1781.

Adam Smith died eight years later on July 17, 1789, three days after the fall of the Bastille in France. Pierre Samuel Du Pont de Nemours, whose book would prove influential in Smith's intellectual development went on to claim Smith as one of the fathers of the "useful revolution" which was bringing a 'good constitution' to France, extending the principles upheld in Britain and the United States of America.¹⁰⁷ Smith, however, felt that the revolutionary measures which Quesnay and the Physiocrats were willing to institute as necessary for reform were "dangerously utopian," and that "the progress of wealth could be far better encouraged by the improvement of existing institutions than the creation of new ones."¹⁰⁸

Eventually England and France would find themselves at war with each other over whose system of revolution was more effective. The contest between varieties of revolution would continue for another two centuries, but in 1989, when the Berlin Wall fell, Capitalism would prove its superiority as the real engine of revolution over the socialist revolutionary movements it had spawned. Two hundred years earlier, Smith had shown that the real revolutionary regime was the "system of perfect liberty," which

did not have to be created by a single revolutionary act of legal despotism. All that was needed was a sovereign who was prepared to remove "obstructions" to the workings of the market, leaving the rest to nature.¹⁰⁹

Capitalism, "the obvious and simple system of natural liberty," did not "establish . . . itself of its own accord," as Smith claimed, any more than any other economic system did. But the illusion that it did was to prove more powerful than its opponents' attempts to dismantle it according to socialist or communist principles. The articulation of a more sophisticated critique was still a century over the horizon. Its implementation has yet to take place. In lieu thereof, the invisible hand continued to hold the scepter of economic power and wield it like an iron rod that was all the more oppressive because it was, well, invisible. Capitalism under the influence of the Scottish Enlightenment had transformed greed from a vice into a "system of nature." It had become a structure of sin, according to which a man "intends only his own gain, and he is in this as in many other cases, led by an invisible hand to promote an end which was no part of his intention."¹¹⁰ The main thing which would continue to confound the intentions of the capitalists was usury, which had become morally invisible to the proponents of the invisible hand.

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Chapter Sixty-One

The Continental Reaction to Capitalism

On January 14, 1766 Frederick V, King of Denmark died. With him died the tradition of Danish absolutism which had begun 101 years earlier when Frederick III instituted the *lex regia* to deal with the chaos which was the constant and universal legacy of the Protestant revolt in general and the Thirty Years War in particular.

Before the absolutist reaction to the chaos of the Reformation, Denmark had a form of government that went back to the Germanic traditions of the Goths and Vandals. In 1755, a 25-year-old French professor had published a book, *Introduction à l'histoire du Dannemark*, which exposed the then current political absolutism as antithetical to the traditional freedoms which the Germanic tribes which colonized Denmark had known since the age of the Edda, the great Icelandic epic. From Mallet, the Scandinavians of the 18th century learned that Europe had derived "a spirit of independence and equality" from their ancient Germanic traditions, which could still be observed in their primitive purity in Iceland.¹

Mallet dedicated his book to Frederick V, and during the 11 years between the book's publication and Frederick's death, it "contributed to arousing curiosity and interest in the historical roots of modern liberty"² and a sense that "Denmark needed reforms like any other country."³ By the time Frederick's successor Christian VII became king change was in the air. The 18th century was the age of Utopian theorizing, a tradition which went back to Plato's Republic but which had been reinvented in earnest when Montesquieu and Rousseau began their meditations on the social contract. Utopian theorizing was most popular in France, but ironically the foreign technocrats who had been brought in to run the absolutist monarchy became the group most avid promoters of revolutionary reform in Denmark. Montesquieu's most avid readers in Denmark were the Genevan expatriates who were government employees in Copenhagen.⁴ More numerous than emigrants from Geneva were the "administrators and technicians" who had come from Germany and Sweden, who brought the ideas of the Enlightenment, especially free trade in both goods and ideas, into a regime that was the calcified and obsolete remnant of ideas that had achieved prominence a century earlier. At the time of Frederick V's death, Denmark was "closed internally" in the thrall of absolutist politics and mercantilist economics, but "open externally" to the ideas that were circulating in Europe.⁵ It would prove to be an explosive combination of ideas and circum-

stance. Because of its centralization, the absolutist monarchy was easy to subvert from within by the bureaucrats who had been hired to run it, but because of its conservatism, the foreign revolutionaries who took control ran the danger of creating a violent backlash among the xenophobic Danes.

In January of 1766 Christian VII succeeded Frederick V and ascended to the Danish throne. Christian was 17 years old and still under the influence of his tutor Reverdil, who had the unenviable task of trying to form a mind that was slipping deeper and deeper into dementia. Delusions of grandeur and fantastic schemes alternated with periods of deep depression and abulia. Since "a patient with abulia is unable to act or make decisions independently,"⁶ Christian's malady provided an opportunity for those around him to take over the governance of his country. His mental illness also increased the power of his physician, a German national by the name of Johann Friedrich Struensee, the son of a German theologian from Halle, who was imbued with the ideas of the French Enlightenment as well as a scientist with political ambitions.⁷

Nine months after becoming King, Christian married Caroline Mathilde, the sister of George III, king of England. In May of 1768, the Danish court set off on a tour of France and England. Because of his precarious mental state, Christian took his physician with him as part of his retinue, and Struensee used the opportunity to increase his hold over the king and to inaugurate a love affair with the queen. After the court's return to Denmark in January 1769, the king's mental state deteriorated rapidly, probably attributable, at least in part, to his suspicions about his wife. That deterioration led to an increase in Struensee's power over him, which Struensee then used to eliminate political rivals from the government. Beginning in September of 1770 Struensee re-structured the Danish government by creating a cabinet modeled on the cabinet Frederick II had created in Prussia, and it was through this cabinet, as "grand visier," to use the term Reverdil applied to him, that he began to rule Denmark.

Once in power, Struensee inaugurated social and political reforms which would shake this small country to its foundations and eventually lead by way of reaction to his death.⁸ Struensee's decrees were initially puzzling to the ruling oligarchy, especially the Lutheran Church, because he seemed bent on dispersing the political power which absolutism had placed, in the person of the demented king, into his hands. On September 4, 1770, Struensee "abolished . . . royal, academic and ecclesiastical censorship in Denmark."⁹ In October, Struensee granted freedom of the press and abolished the censorship of books. Voltaire cheered him on from afar, telling Christian that he was a "virtuous monarch" who granted men their rights thereby allowing them to think.¹⁰ Struensee would return the compliment by sending funds to France in the Danish king's name for the erec-

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tion of a statue in Voltaire's honor.

Struensee then attempted to rein in the power of the established Lutheran church. He turned the chapel at the local hospital into a VD ward. And, perhaps with his own relationship with the queen in mind, began liberalizing laws on matrimony, divorce, illegitimacy, and infanticide.¹¹ On October 26, 1770 Struensee introduced a measure limiting the number of religious feasts.

Struensee introduced free trade to Denmark when he made Altona "an absolutely free commercial city."¹² On December 26, 1771, Struensee introduced free trade into the grain trade in southern Norway. Instead of being forced to buy grain from the Danes, who often couldn't produce enough to feed themselves, the Norwegians, thanks to Struensee, could buy cheaper and more plentiful grain from abroad.

Like John Law, the Scottish adventurer who seems to have been his model, Struensee tried to tackle the problem of sovereign debt. Like Adam Smith, Struensee thought he could get Denmark out of debt by abandoning the mercantilist monopolies which were the economic equivalent of absolutism and introducing free trade instead. Struensee, like Quesnay, was a royal physician, but unlike Quesnay, Struensee did not feel competent to carry out the necessary reforms himself. To do this he turned to his brother Carl August, who then set out to transform the entire Danish economy in order to balance the budget.¹³

By implementing these reforms, Struensee had alienated virtually all of the Danish elites who had come to power during the century-long period of the *lex regia*. The oligarchs had lost their monopolies, and the Lutheran Church, which still enjoyed a religious monopoly, had become "scandalized by the reputation for immorality surrounding the queen's favorite, and by the advanced ideas that were attributed to him with increasing insistence." Struensee's promotion of the ideas and careers of *philosophes* like Voltaire was seen as especially scandalous. The statue which Danish money had erected in Voltaire's honor in France was seen as a particularly egregious affront. When Struensee's brother Carl August, whom he had appointed finance minister, tried to raise taxes, a revolution broke out in Jutland, and Struensee sent in troops to put down the rebellion.¹⁴

By late 1771, the Danish ruling class had had enough. A group of nobles and officers formed a cabal around the queen mother Juliana Maria and carried out a *coup d'état* on the night of January 17-18, 1772, arresting both Struensee and Queen Caroline. When the queen was released through the efforts of her brother, the king of England, it became clear that the brunt of Danish anger at the Enlightenment and its foreign agents was going to fall on Struensee, who soon found himself "poorly dressed and in chains," and "locked in a dark prison, where although arousing compassion among men

of feeling, the people and enemies of the disgraced minister are able to satiate their feelings of revenge through this horrible spectacle."⁵ The Danes united around making Struensee their scapegoat because his guilt allowed them to project the blame for everything that had gone wrong in Denmark onto agents of foreign influence.

Xenophobia suffused Struensee's trial from beginning to end. The Lutheran theologian Balthasar Muentzer "begged the king to deport those who were not Danish" and to "turn away from foreign languages and from traitors too lazy to learn our tongue."⁶ Struensee was accused of publishing "royal edicts in the German language" and conducting military drills in German.¹⁷

By the time Struensee's trial got underway, his conviction was a foregone conclusion. On April 25, Struensee was condemned to have "his right hand . . . cut off, his head severed from his shoulders, and his body cut into four pieces, which will be attached to a wheel; the head and hand will be mounted on a stake,"¹⁸ The gruesome sentence was carried out three days later. Struensee's death was a predictable result of the trajectory of the Cartesian continental rationalist tradition of philosophy which generated Utopian schemes because of its misguided understanding of the role of mathematics and its supposedly clear ideas in realms where math had no relevance. The structures of political and economic life in Europe in general and Denmark in particular, as Mallet's book had pointed out, had grown up organically over centuries as a combination of Germanic tribal custom and the ameliorating effect of Christianity. The Reformation stopped that organic growth and created anarchy in its wake, which led to the tyranny of Absolutism. In order to save the social order from complete dissolution, the monarchs of post-Reformation Protestant countries introduced variations of the Elizabethan police state, stop-gap measures which, even if they were given the aura of legality, were nothing but tyrannical usurpations which revoked the organic customs that were the real basis for the social order.

By the middle of the 18th century, the reaction against mercantilist absolutism was in full flood. Cut off from their traditions by over two centuries of revolution, the Protestant principalities had no way to regain their organic roots, which were fatally associated with Catholicism. Science—then understood on the continent as a mish-mash of Newtonian physics and Cartesian geometrical thought applied to the realms of practical reason where it had no relevance—became the new savior. Science was both the herald and validator of "freedom," which meant that the John Laws and Struensees could sweep down and institute utopian reforms mathematically, which is to say, with no regard to the traditions that still perdured from the pre-Reformation period. The result was reform followed by either

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revolution or reaction, or, more accurately, revolution and then reaction and then more revolution in a never-ending dialectic that was to become at the hands of Hegel and Marx a mockery of Smith's invisible hand.

Struensee's brother Carl August was apprehended along with his brother, but instead of ending up on the scaffold, he was released after a few months in prison and quietly made his way to Prussia, where he became a professor of military tactics. His treatise on the use of artillery was state of the art and reprinted well into the 19th century. In the annus mirabilis of 1776, Carl August brought out the translation of a series of essays on finance and trade by the Dutch Jew Isaac de Pinto. That book and the on-the-job training he had received during his short reign as finance minister in Copenhagen now qualified him as an expert in economics. When that expertise came to the notice of Frederick II in 1777, the king appointed him head of a credit bank in Silesia, whose purpose was to finance the Seven Years War. Carl August's competence in running the bank led Frederick to appoint him minister of customs, excise, trade and industry, a position that he held until his death in 1804.¹⁹

Carl August's financial talents had attracted the attention of Mirabeau in France. Like Voltaire, who had advised Frederick the Great, the Comte de Mirabeau, "a notorious philanderer, gambler, and financial speculator before the Revolution" and an equally notorious statesman and orator after it, had written an open letter to Frederick's successor, urging him as Prussia's sovereign "to embrace modern finance in order to introduce sweeping economic, social and political reforms, or it would certainly cease to be a great power." He then mentioned Carl August Struensee "as the only man in Prussia capable of pulling off the economic reforms that. . . were necessary to prevent it from collapsing."²⁰

Minister Friedrich von Schroetter famously remarked that Prussia was not a country with an army, but an army with a country.²¹ Faced with the necessity of forming an army as quickly as possible, Frederick had resorted to the tried and true method of plundering his own subjects by appropriating all of their precious metals. This method, no matter how much ill-will it created among the populace, had the advantage of leaving Prussia without a sovereign debt. This made Prussia unique among the European powers of the late 18th century, and it led the Abbe Mably to predict that:

Prussia's independence from modern finance would allow it to become the savior of Europe: once a general debt crisis had crippled the other states and raised the specter of military dictatorship everywhere else, Prussia alone would remain to restore Europe's liberty.²²

Mirabeau was of a different opinion. As a fervent disciple of John Law, both as a gambler before the French Revolution and as an economist afterward, he defended France's second, and equally ill-fated foray into paper

money, the assignat, and promoted a plan before the Constituent Assembly in 1790 to turn the debt into money, as John Law had done 70 years earlier. Mirabeau saw in Struensee another disciple of John Law, who “will confirm all of my principles.” Following the collapse of Mississippi Bubble in 1719, the conventional wisdom among the ruling class elites in France was that it was not paper money but Louis IV’s crushing sovereign debt and Law’s attempt to solve that problem that had led to the failure of his bank and the paper money scheme it had launched. Since Prussia had no sovereign debt, the French felt that Struensee could succeed where John Law had failed. Mirabeau ended his letter to Friedrich II by claiming that Struensee was “the only man in Prussia who was capable of implementing such a monetary reform.”²³ If Frederick II followed Struensee’s plan, Mirabeau claimed that Prussia would become the first state where “all men who wish to labor shall find work.”²⁴

Struensee was no stranger to the related issues of sovereign debt and paper money. Having translated Isaac de Pinto’s “influential defense of public debt,” the *Traite de la circulation et du credit* into German, Struensee understood “Law’s basic premise that the debt could be translated into a powerful economic stimulus, generating public expenditures and stimulating a cascade of private investment.”²⁵ Struensee had mixed feelings about free trade, but he “was a staunch advocate of monetary reform throughout his career,” who “consistently defended the monetary principles underlying Law’s system as well as the assignats.” He came close to implementing the system which his mentor Mirabeau had copied from John Law in 1794 when the cost of the war with France threatened to bankrupt Prussia. Struensee

actually won the king’s approval to introduce a paper currency backed by the assets of the Prussian trading company that he had previously directed, but the plan was stymied by the resistance of officials who remained in charge of the various government accounts and ultimately came to nothing.²⁶

Struensee’s brilliance could not overcome the inertia of the Prussian government because, as of 1794, Prussia was still an intellectual colony of the English ideology, which could be described as a confection of Newtonian physics, Smithian economics, and Humean philosophy, all of which rendered the mind incapable of any knowledge that was both true and real. To have to choose between what was true and what was real was a deadly dilemma for any thinking being, but it was doubly paralyzing for a nation which had been raised in the Leibniz-Wolff school of continental rationalist metaphysics. The German mind, which had been taught that it could derive being from thought, had been simultaneously blinded by the splendor of Newtonian physics and paralyzed by Hume’s skepticism, and, as a result, the Germans had to accept Adam Smith’s economic theories as the only

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viable alternative to a Mercantilism that everyone conceded was both intellectually obsolete and morally repugnant. All of this was about to change, however, as the Prussians gradually digested a tightly reasoned philosophical treatise by one of their professors from Koenigsberg, the easternmost outpost of the Prussian realm. The professor's name was Immanuel Kant, and the book was his *Critique of Pure Reason*, which rolled off the presses in 1781.

Endnotes

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- 2 Venturi, p. 240.
- 3 Venturi, p. 244.
- 4 Venturi, p. 240.
- 5 Venturi, p. 236.
- 6 "Aboulia," *Wikipedia*, <http://en.wikipedia.org/wiki/Aboulia>.
- 7 Venturi, p. 247.
- 8 Venturi, pp. 246-7.
- 9 Venturi, p. 248.
- 10 Ibid. Monarque vertueux, quoiqu ne despotique
Tu rend ses droits a l'homme, et to permets qu'on pense.
- 11 Venturi, p. 249.
- 12 Ibid.
- 13 Venturi, p. 253.
- 14 Venturi, p. 252.
- 15 Venturi, p. 256.
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- 19 Isaac Nakhimovsky, *The Closed Commercial State: Perpetual Peace and Commercial Society from Rousseau to Fichte* (Princeton, NJ: Princeton University Press, 2011), p.116
- 20 Nakhimovsky, p. 118.
- 21 "Prussian Army: An Army with a Country," *Wikipedia*, http://en.wikipedia.org/wiki/Prussian_Army#An_army_with_a_country.
- 22 Nakhimovsky, p. 119.
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- 24 Nakhimovsky, p. 124
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- 26 Nakhimovsky, p. 116.

Chapter Sixty-Two

Kant's Synthetic A Priori

In 1756 Kant read Hume in a German translation and found his scepticism devastating. Years later, when he had solved the riddle which Hume proposed, Kant wrote in his *Prolegomena to any Future Metaphysics* that "it was the thought of David Hume, which many years ago first interrupted my dogmatic slumbers and gave an entirely new direction to my inquiries in the field of speculative philosophy."¹

For 11 years, beginning in 1770, Kant was completely silent on philosophical issues as he wrestled with Hume's scepticism. Hume claimed that there were two kinds of judgments, analytic judgements in which the predicate is contained in the concept of the subject and synthetic statements, which "affirm or deny of a subject a predicate which is not contained in the concept of the subject." So "all bodies are extended" is an analytic statement, but "all bodies are heavy" is an example of a synthetic judgement, "for the idea of weight or heaviness is not contained in the concept of body as such."²

Statements like "all bodies are extended" are both true and necessary. Statements like "all bodies are heavy" are factual and contingent. Because the latter statement is based on experience, the judgment is termed synthetic a posteriori. The dilemma at the heart of Humean skepticism is that statements can be either true or false, which is to say, necessary, or real and unreal, which is to say contingent, but no statement can be both true and real. Kant broke out of this dilemma by claiming that:

there is another class of synthetic propositions in which the connection between predicate and subject, though not knowable by mere analysis of the concept of the subject is nonetheless necessary and strictly universal. These are called synthetic a priori propositions. Kant gives us an example. "Everything which happens has its cause." This proposition is synthetic because the predicate "having a cause" is not contained in the concept of what happens, that is, of an event. It is an ampliative, not an explicative judgment. But it is at the same time a priori. For it is characterized by necessity and strict universality, the marks of a priori judgments.³

Kant proved that the mind could have knowledge about reality which was a priori by showing that:

Synthetic a priori principles . . . are to be found, in the first place in mathematics. "First of all, it must be noted that mathematical propositions proper are always

judgments a priori and not empirical, because they include the concept of necessity, which cannot be derived from experience. The proposition $7 + 5 = 12$ is not an empirical generalization admitting of possible exceptions. It is a necessary proposition. At the same time, however, this proposition, according to Kant, is not analytic in the sense described above: it is synthetic. The concept of 12 is not obtained, and cannot be obtained by mere analysis of the idea of a union between seven and five. For this idea does not of itself imply the concept of 12 as the particular number resulting from the union.⁴

Similarly, the propositions of pure geometry are also synthetic a priori propositions. Geometry is a science which makes claims about the properties of space which are true independently of any empirical verification, which is to say true a priori of all space because it determines the "necessary condition for all objects of external intuition."⁵ The statement that a straight line is the shortest distance between two points is a synthetic statement because the predicate is not contained in the subject, but it is also a priori because it is first of all necessary and secondly not derived from empirical generalization.⁶ Like mathematics in general:

Geometry. . . is constructed a priori. Nevertheless, we known very well that its propositions are necessary in the sense that empirical reality must always conform to them. The geometer determines a priori the properties of space, and his propositions will always be true of the empirical spatial order. But how can he make necessarily true a priori statements which have objective validity in reference to the external, empirical world. It is possible for him to do this only if the space, whose properties he determines, is a pure form of human sensibility by which form alone objects are given to us and which applies only to phenomena, not to things in themselves. Once we accept this explanation, "it is quite easy to understand and at the same time prove indisputably that all external objects of our sensible world must necessarily accord in all strictness with the propositions of geometry."⁷

Kant's discovery of the synthetic a priori set off a Copernican Revolution in philosophy. Kant agreed with Hume's claim that it was impossible to derive necessary and universal statements from empirical data, but then he turned the tables on Hume when he wrote:

Let us try then whether we may not make better progress in the tasks of metaphysics if we assume that objects must conform to our knowledge. This at all events accords better with the possibility which we are seeking, namely of a knowledge of objects a priori, which would determine something about them before they are given to us.⁸

Space and time are not derived from the mind's perception of reality; the mind imposes space and time on its perception of reality: "they are not drawn from experience, they make it."⁹ By refuting Hume and the empiricists, Kant brought about a Copernican Revolution in philosophy. "Kant's main legacy was his clarification of the til then confused relation-

ship between subject and object." Kant's "copernican" insight was not that our perceptions were formed by objects, but rather that objects conformed themselves to our perceptions. At the same time he firmly asserted that human perception was not a productive but rather a receptive capacity, dependent upon an unknowable "*Ding an sich*." Objects must conform to the mind rather than the other way about.¹⁰

The empiricists claimed that the mind was purely passive in knowledge, but in doing this they abolished the very mind they were claiming to explain. No amount of observation of particular events can produce the knowledge that we undoubtedly have if we have a mind. Hume concluded that we could not affirm the principle of cause and effect on this basis. Kant concurred but took Hume's logic one step further. Since we obviously do possess knowledge of cause and effect, it must be an instance of a priori cognition.¹¹ Kant's Copernican Revolution was based on his discovery of the synthetic a priori. All experience is based on the synthetic unity of appearances which is created by categories like space and time, which are ultimately a function of the self-consciousness which Kant referred to as "*ich denke*" or "transcendental apperception."¹²

Kant's Copernican Revolution gave birth to German Idealism. His discovery of the synthetic a priori also marked the end of the undisputed reign of British empiricism, which claimed that the mind was a passive mirror of an essentially Newtonian universe, and the beginning of German romanticism, which Friedrich Romig sees, not as something purely subjective, which is how German Idealism is normally portrayed, but as a "re-discovery of Logos."¹³ What began as enthusiasm for the French Revolution in its "pre-critical period," became, through the "rediscovery of Logos," ultimately a recovery of the metaphysical tradition and a re-discovery of God and the Logos made flesh.

The German Idealists re-discovered Logos and the ultimate unity of thought and being, which Parmenides had proclaimed among the pre-Socratics and which British Empiricism had denied implicitly since Newton and explicitly since Hume. This restoration of the unity of thought and being was the essential pre-condition for the recovery of any philosophy worthy of the name. This restoration didn't happen completely until the appearance of Kant's *Critique of Practical Reason*, which appeared in 1789, the same year as the French Revolution.

In his metaphysics of morals, Kant necessarily "postulates" freedom, immortality and God as necessary conditions for any and every moral philosophy because without freedom we could not be moral beings who must choose between good and evil and without this freedom of choice we would have no moral "dignity." Without the immortality of the soul we would all be reduced to the status of beasts and would have no reason to care about

“eternal life.” Nor could we distinguish between good and evil if God, the highest good, the “eternal” and the “Good” didn’t exist. If terms like Freedom, immortality and God must be posited necessarily, Being is conferred on them. It’s only a short step from the moral proof of the existence of God to the ontological proof of his existence, and this is precisely what shows up in the later writing of the German Idealists, never to disappear again.¹⁴

In conferring being on metaphysical concepts like freedom, immortality, and God, Kant used practical reason to re-introduce metaphysics, i.e., being, into philosophy after it had been expelled from pure reason by British Empiricism. Practical reason allowed Kant to smuggle metaphysics back into philosophy through the back door, through an appeal to “Duty.” Just as the statements of geometry govern space a priori and are true in all circumstances independent of any a posteriori verification, so also the statements of morality govern all human action, independently of any a posteriori verification. Our knowledge that we ought to tell the truth is not knowledge of how men actually behave but knowledge of how they ought to behave which is a priori, “in the sense that it does not depend on men’s actual behavior. Even if they all told lies, it would still be true that they ought not to do so. We cannot verify the statement that men ought to tell the truth by examining whether they do so or not. The statement is true independently of their conduct, and in this sense it is a true a priori. For necessity and universality are marks of apriority. . . .”¹⁵

The fact that we are faced with choices presupposes the existence of good and evil as the criteria for making those choices. This leads us to the first principle of practical reason, namely, that good is to be pursued and evil avoided. Theoretical reason is directed toward knowledge, while practical reason is directed toward choice in accordance with moral law and, when physically possible, to the implementation of choice in action.¹⁶ Both involve a priori elements which cannot be derived from sense experience.

Kant’s *Critique of Practical Reason* reached its culmination in the Categorical Imperative, in which he claimed to find “the ultimate source of the principles of the moral law in reason considered in itself, without reference to specifically human conditions.”¹⁷ “There is therefore only one categorical imperative, and it is this: ‘Act only on that maxim through which you can at the same time will that it should become a universal law.’”

According to Copleston’s reading of Kant, man:

ought to act only on those maxims which they can at the same time will, without contradiction, to be universal laws. The imperative thus ends in obligation. But it is, according to Kant, a synthetic a priori proposition. On the one hand, the obligation cannot be obtained by mere analysis of the concept of a rational will. And the categorical imperative is thus not an analytic proposition. On the other hand, the predicate must be connected necessarily with the subject. For the categorical imperative, unlike a hypothetical imperative, is unconditioned

Kant's Synthetic A Priori

and necessarily binds or obliges the will to act in a certain way. It is, indeed, a practical synthetic a priori proposition. That is to say, it does not extend our theoretical knowledge of objects, as is done by the synthetic a priori propositions which we considered when discussing the first Critique. It is directed toward action, towards the performance of actions good in themselves, not towards our knowledge of empirical reality, but it is nonetheless a proposition which is both a priori, independent of all desires and inclinations, and synthetic. The question arises, therefore, how is this practical synthetic a priori proposition possible?¹⁸

Kant claimed that it was not possible to deduce all moral laws and precepts by mere analysis from the concept of pure practical reason, but his followers weren't as sure of this maxim as he was. In avoiding the dangers of the Hutcheson school, which attempted to ground the moral law in empirical realities with the aid of Newtonian physics, the German Idealists succumbed to what Jacques Maritain referred to in his essay on Descartes as angelism.¹⁹ Angels have no bodies and therefore no senses, and so whatever knowledge they have has been directly infused in them by God and/or deduced from that infused knowledge by their own rational powers.

Man was, according to the Cartesian view, an angel trapped inside a machine. Kant accepted the dichotomy of *res extensa* vs *res cogitans* proposed by Descartes, but Gilson claims that he never resolved it: "Kant had conceived his whole doctrine in such a way as to satisfy two postulates: the physics of Newton is possible, moral duty is possible," but he "never succeeded in giving it an organic unity. It was not a question of cleverness or genius; the thing simply could not be done."²⁰ That failure could be traced to the German Idealists overly subjective understanding of Logos, and it would lead the next generation of German thinkers to dismiss their intellectual fathers—i.e., Kant, Fichte, Schelling, and Hegel—as Utopian dreamers and turn to science as the antidote.

But for the moment those failures lurked over the horizon of the future. For the time being, Kant liberated the Germans by freeing them from the tyranny of empiricism, Newtonian physics, and capitalism, the economic system based on British empiricism. During the 50-year period which began in 1781 with the publication of Kant's *Critique of Pure Reason* and ended in 1831 with the death of Hegel, German philosophy reached its acme and brought forth "an abundance of systematic philosophical alternatives"²¹ that can be compared in the scope of its sheer genius to the contemporaneous explosion of creativity in German music. Once the Germans were freed from the crippling effects of the English Ideology, they could begin to reason their way to a political and economic system of their own making.

Endnotes

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- 3 Copleston, p. 16.
- 4 Copleston, p. 17.
- 5 Copleston, p. 38.
- 6 Copleston, p. 18.
- 7 Copleston, p. 38.
- 8 Copleston, p. 20.
- 9 Gilson, p. 231.
- 10 Copleston, p. 20.
- 11 Copleston, p. 23.
- 12 "Deutscher Idealismus," *Wikipedia*, http://de.wikipedia.org/wiki/Deutscher_Idealismus
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Chapter Sixty-Three

Fichte's Closed Commercial State

In 1790, one year after the publication of *The Critique of Practical Reason*, an impecunious gypsy scholar by the name of Johann Gottlieb Fichte showed up at Kant's door in Koenigsberg. Fichte had finally gotten to meet his idol, and in the course of their meeting he asked him for money and showed him a manuscript of a book he had written in the manner of the master with the modest title *An Attempt at a Critique of all Revelation* (*Versuch einer Kritik aller Offenbarung*). Kant declined Fichte's request for money, but he was so impressed with the manuscript that he sent it to his publisher with his recommendation. Fichte wanted to revise the *Attempt at a Critique of all Revelations*, but Kant said: "It is well-written." "Can this be true?" Fichte asked himself in his diary, "and yet Kant says so."¹

Born in 1762, Fichte was the son of a Saxon weaver from Rammenau, who was educated through patrons and scholarships in Schulpforta when his precocious intelligence was spotted by a travelling nobleman in 1770.² Fichte strained to make the accommodations that would secure him a clerical career, but his thoughts were so far in advance of the conventional wisdom—he would eventually be accused of atheism—that this seemed unlikely. Several stints as a household tutor only deepened his frustrations. The search for tutoring appointments took Fichte to the far corners of the German-speaking world, from Zurich, where he met his future wife, Johanna Rahn, to Koenigsberg, where he met Kant.

When Fichte's *Critique* appeared it was rumored that Kant himself was the author, so well had Fichte adopted the master's style and philosophical system. When the real author became known, Fichte was immediately offered a professorship at the University of Jena, a position which he assumed in 1794. It was during his first year at Jena, that Fichte published his second book, one with an equally modest title *The Basis for All Scientific Knowledge* or *Grundlage der gesamten Wissenschaftslehre*.

One year after its publication, Fichte wrote a letter in which he claimed that his philosophy "was intimately linked to support for the French Revolution."³ Fichte claimed that his philosophy was "the first system of freedom" because: "Just as [the French] nation frees man from his external chains, my system frees him from the shackles of things in themselves, from the external influences which have afflicted him more or less in all previous systems—even the Kantian."⁴

With minds liberated from the chains of empiricism by Kant's *Critiques of Pure and Practical Reason*, Germans like Fichte began wondering

if they could succeed where previous thinkers like Adam Smith or David Hume had failed because they had the benefit of a better philosophical foundation. Kant, who was, like Fichte, an avid supporter of the French Revolution, was also busy thinking through its political implications in the light of his own philosophical Copernican Revolution. In 1795, Kant published *Zum ewigen Frieden*, his essay on how to achieve perpetual peace.

Kant's essay arrived on the intellectual scene during a heated discussion in Prussia between supporters of English economics and its French critics, a discussion which reached its climax when Abbé Sieyès arrived in Berlin in 1798 to take charge of the discussion and ensure a favorable outcome for the French Republic. When it first appeared, *Zum ewigen Frieden* "was widely seen as an endorsement of Sieyès's agenda," so much so that "According to one account, Sieyès himself was even presented with a personal copy of Kant's essay, bound up in a tricolor ribbon."⁵

Kant may have sent a copy to Sieyès, but the theories he expressed in *Perpetual Peace* were English, in particular those of David Hume, who felt that commerce would lead to peace. Kant felt that sovereign debt would force the nations of 18th century Europe to make a choice. Because perpetual war had led to unrepayable debt, the state would have to choose between servicing its debt and funding its armies.⁶ Confronted with that choice, the nations of Europe would have no other alternative but to create an international legal order which would guarantee peace. Kant's prescriptions for perpetual peace were based on themes he had picked up from Hume and Smith. The invisible hand of usury would make war too expensive, and peace of necessity would have to ensue. Commerce would "ultimately reunite humanity by counteracting geographic separation . . . and overcoming linguistic and religious differences."⁷ This would happen because "the spirit of commerce sooner or later takes hold of every people, and it cannot exist side by side with war."⁸

Fichte must have read his idol's essay with mixed feelings. Kant's essay appeared during the fall semester of 1795 when Fichte was beginning a new lecture series on natural law at Jena. Fichte was still smarting from the violent reaction his attempt to suppress student fraternities at Jena had created. His "Morality for Scholars" lecture series ended up unfinished when he had to leave town under a barrage of rocks, thrown by students who were happy with the status quo but unhappy at Professor Fichte's attempt to reform it.⁹ Having rocks thrown through one's window, Goethe was to quip later, taking a jab at Fichte's idealism, "was an unpleasant way to learn of the existence of the 'not I.'"¹⁰

During this contentious period of his life, Fichte wrote an anonymous review of *Zum Ewigen Frieden* which appeared in the January 1796 issue of the *Philosophisches Journal einer Gesellschaft Teutscher Gelehrten*. Antici-

pating views that would appear later in his book on the closed commercial state, Fichte argued that, far from leading to peace, commerce more often than not led to war. In fact, "the development of the modern European states system had thoroughly corrupted the 'spirit of commerce.'"¹¹

The conversation over the French vs. the English model of commerce would continue unabated for the next decade until it was settled by *force majeure* when Napoleon defeated the Prussians at the Battle of Jena in 1806. Abbé Sieyès had come to Berlin in May 1798 as the ambassador of the French Republic to convince the Germans to unite with the French against England's commercial tyranny. As of 1798 all of the German idealists were supporters of the French Revolution,¹² and so he would have been assured a warm welcome in the Prussian capital. Sieyès was a disciple of the John Law school of debt management and so would have been allied with the position of Mirabeau, who was the patron of Struensee, who would have been sympathetic to Sieyès' point of view and in fact invited him to dine repeatedly at his residence while Sieyès was in Berlin. Sieyès came to Berlin with a definite plan in mind. He wanted to enlist Prussia to help France defeat the commercial hegemony which flowed from England's naval supremacy. Sieyès had his own plan for perpetual peace, although probably not one which Kant would have found agreeable, because it entailed the transformation of Germany into a federation of republics, by persuasion if possible but by force if necessary. In a letter to Talleyrand, Sieyès claimed that the German federation would secure France's borders against continental armies, but more importantly it would "defend Germany from English commerce."¹³

In 1799, Fichte joined Sieyès in Berlin after getting fired from his teaching position at the University of Jena for "atheism." Barruel mentioned the scandal in his *Memoirs Illustrating the History of Jacobinism*, where he repeats the charge of atheism, but Nakhimovsky claims that the real cause Fichte's firing was "the reckless self-righteousness of Fichte's response" to the student uprisings.¹⁴

After the *Zeitgeist* assembled the *dramatis personae*, the curtain went up on this particular act in the first year of the new century, which looked as if it were going to be the dawn of an era of French influence that would make *le grande siècle* pale in comparison. After a string of defeats in 1799, Napoleon finally drove the Habsburgs out of Italy by defeating them at Marengo in June of 1800. From that moment on, it seemed as if the French cause was in the ascendancy on both military and intellectual fronts.

In the fall of 1800, Alexander-Maurice Blanc de Lanautte, comte d'Hauterive published an attack on England's economic system in his book *De l'état de la France a la fin de l'an VIII* (On the state of France at the end of the Year Eight). According to d'Hauterive, the European War, which

Napoleon seemed to be winning, came about not because of any crude war-mongering imperialism on the part of the French, but rather "because the common norms of European civilization had already been undermined" by "the chronic form of commercial warfare that England had been inflicting on Europe since the reign of Oliver Cromwell."⁵ Commerce, in other words, had not led to peace, as Kant and Hume claimed it would, but rather to a "vicious commercial rivalry," which had been instigated by England and imposed on the rest of Europe. Far from bringing peace, English commerce "had destroyed the law of nations" and left contemporary Europe subject to the rule of the stronger that was the true root of England's commercial hegemony. Cromwell, according to d'Hauterive:

was the real founder of the maritime system, the real author of the naval wars of Europe. He conceived the idea of fixing their industry upon a permanent state of conspiracy and war against the industry of others, separating forever their interests from the interests of Europe. . . . He proclaimed the Navigation Act; by that bold and decisive measure placed the commerce of his nation in a position of constant jealousy and enmity with the commerce of all others.¹⁶

Turning Kant and Hume upside down, d'Hauterive concluded that: "a permanent peace settlement could not be achieved until commercial rivalry had been eliminated. A new system of international right would not endure unless England's commercial hegemony was replaced by a new trading system."¹⁷

In order to be successful, that system would have to involve not only Prussia but the unification of Germany, or at the very least the creation of "several viable and secure states that would no longer serve as either pawns of English finance or prey for Habsburg and Hohenzollern expansionism."¹⁸ After his arrival in Berlin, Fichte lost no time ingratiating himself with the Francophile community. In 1800, one year after his own arrival in the Prussian capital and two years after Sieyès' arrival, Fichte made a significant contribution to this ongoing discussion by developing the social implications of Kant's theories in two books. In *Die Bestimmung des Menschen* (*The Vocation of Man*), Fichte gave a graphic presentation of how Kant's Copernican Revolution had liberated the Continental mind from the invisible chains of individualism (both political and economic), British Empiricism, and Newtonian physics.

Othmar Spann claims that the German concept of the state, which led to the creation of the German state under Prussian hegemony 70 years later, came into being through Fichte's explication of the political and economic ramifications of Kantian philosophy. Kant, with Fichte as his popularizer, created the German Romantic movement by empowering the German mind, which had been crippled by empiricist skepticism. Spann claims that German Romanticism "had its birth in the overthrow of empiricism effect-

ed by the Kantian philosophy."¹⁹ With the growth of anti-Enlightenment Romanticism, the mantle of intellectual leadership in Europe transferred from England to Germany. This would have significant political implications because "in the post-Kantian philosophy the old individualism based upon the idea of natural right was discarded and was replaced by a universalist and organic conception of the State."²⁰

The concept of the state got transformed in light of Kant's Copernican Revolution. Instead of being simply a passive aggregate of individuals, which is what it had been according to the English ideology, the state took on the same creative powers that the mind inherited when it created the categories of time and space. The state created a nation out of a mass of individuals. Unlike the English, who felt that individuals created the state, Fichte claimed that the state transformed individuals into citizens. "It is the state alone which can transform an indeterminate mass of human beings into a closed whole, and can unified it as a universal unity."²¹ In its creative capacity, the state is analogous to the Kantian mind, which constituted reality necessarily by its activity. Once Kant had liberated the German mind, the state could no longer be construed as the passive sum of individual activity, as it was with the English, and "It was Fichte. . . who broke away from the natural right, inasmuch as he rejected the notion of the absolute, self-sufficing individual and substituted for it that of the creative community, the living relationship between the ego and the tu."²² Fichte liberated humanity from the English fiction that the state was made up of autonomous, unrelated individuals. They were now parts of an organism established upon the principle of spiritual reciprocity. "If there are to be human beings at all, there must be a plurality of them," wrote Fichte, "So soon as we fully define the concept of the human being, we are impelled to pass beyond the thought of the individual and to postulate the existence of a second, for only thus can we explain the first."²³

The German attack on capitalism was part of a larger movement known as German Romanticism which sought to overturn the Enlightenment by returning to a "German spirit. . . which had come into being in the Middle Ages."²⁴ The Holy Roman Empire with its guilds and its link to the Church provided a world in which "man was no longer looked upon as individualistic, as isolated" or "as subjective and self-governing, but as a member of a living and organized social aggregate."²⁵

Fichte developed the economic implications of Kant's Copernican Revolution in *Der Geschlossene Handelsstaat* (*The Closed Commercial State*). Fichte wrote the *Closed Commercial State* in response to Kant's seeming sympathies with the English commercial ideology, at a time when *Wealth of Nations* was "in the middle of its triumphal procession through Europe,"²⁶ and it was clearly perceived as an attack on the English position.

Wilhelm Traugott Krug, Kant's successor at Königsberg, later described Fichte's CCS as a work that was motivated less by "speculation alone" than by Fichte's evident "hatred of England and fondness for France."²⁷

Fichte dedicated *Der Geschlossene Handelstaat* to Prussia's finance minister, Count Carl August von Struensee with good reason because *Der Geschlossene Handelstaat* "was a bold proposal for Prussia to pursue a pro-French strategy" of the sort which Struensee had been proposing since he had become Prussia's finance minister.²⁸ Fichte's book "proposed a blueprint for 'republicanization,'"²⁹ which would "take advantage of a French-led transformation of the European states system in order to lay the economic foundations for a constitutional republic in a state like Prussia, thereby enabling it to become a member of a peaceful international order."³⁰

Fichte wrote the *Closed Commercial State* with the tradition of Utopian literature which began with Plato's *Republic* in mind, which comes out in the dedication to Struensee, when he writes that "The content of the book is entirely theoretical, and it can be known a priori that neither the state it describes nor the money it proposes will ever exist as described."³¹ *The Closed Commercial State* also had close intellectual links to Thomas More's *Utopia*, which led some to claim that Fichte had the distinction of being the first socialist.

Modern economics was a creation of British empirical philosophy. A generation after the appearance of *Wealth of Nations*, the Germans were becoming more aware of the philosophical system which informed the book. Thinkers on the continent, both French and German, were wondering if an economy could be better explicated according the Kantian principles than on a combination of empiricism and Newtonian physics. Smith's empiricism had led him to certain truths about the political economy, but the philosophical straitjacket which he had to adopt as a protégé of the Whig oligarchs in Scotland prevented him from integrating those insights into a coherent economic system. The big issue was whether economic principles could be excogitated in the continental rationalist mode, which is to say, deduced from certain fundamental principles, in a manner much more a priori than what Smith had done.

Unfortunately, Fichte suffered from an over-estimation of the power of pure reason and a priori thinking which brought out all of the worst aspects of Cartesian rationalism, aspects which Jacques Maritain later summarized as "angelism." Since angels have no bodies, they know what they know as direct intuitions or infused knowledge direct from God. Human beings, however, must derive their knowledge from the senses (*Principium nostrae cognitionis est a sensu* sounds like empiricism but it is a scholastic principle.) In his *Wissenschaftslehre*, Fichte granted absolute powers to the ego, setting up a conflict over the extent of subjectivity in idealism that

Schelling and Hegel would carry on in their works.³² Fichte viewed nature as nothing more than a totality of perceptions, which existed always in relationship to the ego. Schelling wanted to rescue both ego and nature, subject and object, as two equally valid poles. Hegel recognized Schelling's basic insight that the Absolute could not be construed as mere subjectivity. Nothing concrete could be derived from an understanding of the Absolute as mere identity; this "naivete of the emptiness of perception" was the "night" in which "all cows are black."³³

Disconnected from "the unity of philosophical experience" which only Scholasticism could confer, Christendom split into two opposing philosophical camps in the wake of the Reformation: British empiricism, which turned the mind into a passive mirror of reality, and Cartesian continental rationalism, which conferred on the mind angelic and eventually, with the advent of German idealism, divine powers, which would allow thought to constitute reality. The British school reached its culmination in the scepticism of David Hume, which found expression in the economic theories of Adam Smith. The continental school made a comeback with Kant and his disciple Fichte.

In reaction to Adam Smith, Fichte tried to deduce an economic system a priori from his understanding of property. Drawing on a scholastic foundation which antedated the continental rationalist/British empiricist split, Heinrich Pesch felt that an economic system could not be deduced a priori from abstract principles, like an understanding of property. The law of the economy of forces ("The principle as such requires only in general terms the quest for the greatest returns with the least sacrifices.")³⁴, which specifies the goal of achieving maximal output with minimal expense (or effort) is a fundamental law "which must be observed in every good economy and therefore also in a good national economy." But it must only be applied with a higher good in mind, which economics cannot supply, namely the moral good. The moral law must transcend and regulate profit, because "the material advantage of a group of individuals loses its justification as soon and insofar as that clashes with the general purpose of political society."³⁵ The German economic tradition beginning with Fichte recognized the common good, based on the moral order, as the necessary context for every economic decision, but Fichte, like Smith (but unlike Pesch), conceived his economics in an impoverished philosophical framework that over-emphasized the powers of the mind and thereby led him to economically untenable positions. The culmination of this thought experiment was *Der Geschlossene Handelsstaat* (*The Closed Commercial State*).

Reacting to the English plundering of the monasteries, ("They don't call it theft; they call it profit") Fichte resurrected the medieval German notion of usufruct: "According to our theory there is no right to own land . .

. but rather the exclusive right to make use of a certain piece of land." Fichte was reacting to Smith's advocacy of free trade, in much the same way that Smith was reacting to the restrictions on economic life which characterized mercantilism. Spann claims that a reaction to the English system of free trade was inevitable because "any economic community is necessarily to some degree secluded from the rest of the world."³⁶ A reaction was also inevitable because the idea of ruthless, unlimited competition denied the collaboration that was necessary for social life. The German temperament was by nature more profound than the English and therefore able to articulate a position that was "universalist . . . as to the nature of the community."³⁷ The revival of universalism was pre-eminently the work of Germans.

It was German philosophy which first in the writings of Fichte and his successors, re-established the genuine universalist conception of the higher solidarity of the members of the State (a solidarity transcending any that could be based on a mere utilitarian purpose), and grounded it this time upon a more solid foundation than that of earlier days.³⁸

The same universalism also became the foundation of modern social reform, because, unlike the English ideology, it allowed economists to turn away "from an atomist and mechanist view towards an organic conception of society."³⁹ This freed the Germans from the dialectic which was taking place in England. When Malthus and Ricardo said that capitalism, because of its individualistic and competitive world view, necessitated a certain amount of suffering, they brought socialism into existence as something equally necessary.

Smith and Fichte were reacting to the excesses of the mercantilist system, which was nothing but the warfare between the states transposed into the realm of commerce. Smith proposed free trade as the solution, and his German acolytes seconded his position. Friedrich Gentz "defended the view that commercial rivalry, along with limits on trade such as Britain's Navigation Acts, was a necessary feature of a world of independent states."⁴⁰ Gentz countered d'Hauterive's charge that England was waging the commercial equivalent of war on continental Europe by claiming that "England had merely exercised the indisputable right of every nation to promote its domestic industry by every method which does not actually injure others," leaving unaddressed the issue of whether England's trade policies were harmful.⁴¹ Thomas Brooke Clarke responded to the French assault by citing Smith's *Wealth of Nations*, which claimed that commerce was "the source of modern civil liberties" because it had "leveled the proud baron, freed kings from slavery and people from oppression."⁴²

By 1800 the shortcomings of the English economic system, or Capitalism, had become apparent. The net result of England's dominance as the world's pre-eminent commercial power had been:

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an endless war of all who engaged in commerce against everyone else in what amounts to a war between buyers and sellers, and this war becomes more intense and more unjust and more dangerous in its consequences, the more the world's population increases, the more the commercial state increases in size because of acquisition, and as the production of goods and services increases. What took place in the simple life of the nations without great injustice or oppression, was transformed in the light of increased need into the most flagrant injustice and a source of great misery. The buyer seeks to drive down the prices of the producer; as a result he demands freedom of trade, which is to say, the freedom for the seller, to steal his markets, destroy his ability to sell, and out of need to drive him so sell his wares at less than the cost it takes to produce them. Therefore he promotes competition among manufacturers, so that the manufacturer because of the difficulty he encounters in selling his products and as a result the worker is impoverished and industrious families perish for want or emigrate to get away from an unjust nation. . . . the buyer doesn't get what he hoped for: he is cheated: and more often than not the net result of shoddy workmanship is pure loss of the public energy and time, and the products what are so shoddily made. . . . No one is guaranteed any continuity in his condition through the continuity of the work, which should be guaranteed, because everyone wants to be free to destroy everyone else.⁴³

The English system failed because it didn't act with the good of the nation in mind. The good of a nation's own citizens can be achieved only if they are guaranteed work. Fichte deduces this conclusion from his understanding of property, which he defines as "the exclusive right to act, not to things."⁴⁴ Property is based on activity not possession: "My theory is that the first and original possession is the exclusive right to a clearly defined free activity." The state must guarantee its citizens the right to economic activity, which boils down to a right to work:

What can the state give him in addition? Obviously only the guarantee that he will always find work or a market for his wares. . . . It is only through this assurance that the State binds him to herself. . . . If the state doesn't give this guarantee, it has no call on the allegiance of its citizens, who become . . . semi-savages in the lap of society.⁴⁵

Capitalism had effectively destroyed the state, which, as in England, no longer felt that it had a duty to defend its citizens against the predations of the powerful, which is another way of saying that the state no longer feels that it has to guarantee work. The anarchy which followed the collapse of the Roman Empire ended when the German states which made up the Holy Roman Empire "closed the state" by imposing political, legal, and geographical boundaries what had become the amorphous, lawless territory of the former Roman Empire.⁴⁶

Now the same type of closure that had put an end to political anarchy needed to be applied to the economic sphere so that the state could put an end to the anarchy of commerce which had been created by English capi-

talism. If the state shirks this economic responsibility it has no call on the allegiance of its citizens:

Any state which simply ensures that one citizen doesn't rob another without ensuring that anyone has something to steal is a nation in the sense that it possesses common laws and legal system, but it is not a nation in the sense of being united through a commonly shared pool of material goods.⁴⁷

Any state which refuses to erect protective economic regulation will end up destroying its own population:

The actual result of this economic system is that the population, which ends up dividing an ever shrinking national product among itself, starts shrinking as well, and the country starts to depopulate, according to which the individual gets more than the would have gotten had not the depopulation occurred—the population emigrates and seeks refuge from poverty, which has become inescapable at home, under another piece of sky, or the government itself turns its population into a commodity and tries to get money from abroad for human exports.⁴⁸

Since the state brought its citizens into being, it has a responsibility to take care of them by providing work. In spite of its Utopian character, Fichte's arguments in *Der Geschlossene Handelsstaat* gained plausibility because he, unlike the apologists for the English system, took seriously the flaws in the arguments Smith had made in favor of free trade a quarter of a century earlier in *Wealth of Nations*.

The main flaw in Capitalism was the exploitation of labor, and it could only be corrected by "closing" the state and subordinating commerce to labor. Fichte rejected Smith's notion of the "invisible hand" largely because it had failed to distribute goods and services equitably. "It is not proper for a constitution in complete conformity to justice to say, 'all that will arrange itself, everyone will always find work and bread, and let good fortune [or the invisible hand] take care of it.'" Referring to the working class, Fichte claimed that, "If the state abandons these classes of people to chance, it gives them absolutely nothing."⁴⁹ Capitalism had led to the degradation of the citizenry, who:

deprived of laws as well as rights, without rules or guarantees . . . are half savages in the bosom of society. Because of the complete insecurity in which they find themselves, they cheat and steal . . . from those who cheat and steal from them in turn, as soon as they are the stronger. . . . And in all of this they do nothing beyond their most perfect right.⁵⁰

For the contract establishing property to be valid, the state had to secure everyone's right to the fruits of his or her labor to the same degree that it secured the farmer's right to work his land. "But," as Fichte points out, "the state can make this guarantee only if it limits the number of workers," and it can only do this by closing its borders, because the state has no au-

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thority over foreigners:

The government needs to count on the fact that a certain amount of goods need to come into circulation in order to insure the citizens their ability to maintain their ongoing enjoyment of their usual needs. How can the state count on the contribution of foreigners to meet these needs when they are not under the state's dominion? The state has to set prices and guarantee them. How can they do that among foreigners whose prices they can't set?³¹

Fichte insisted adamantly that the state had a responsibility for the well-being of its citizens that was more than just a passive defense of freedom: "Is the citizen to be left free . . . so that one can get everything under his control and the other have nothing?"³²

It is the true goal of the state to help every member of the human race, and in order to keep them in existence, the commerce of the state has to be regulated in the way that we have specified. That means that the uncontrollable influence of the foreigner has to be eliminated, and that means that the Rational State is synonymous with the closed commercial state, every bit as much as it is a closed realm when it comes to laws and individuals. Every living person is either a citizen thereof or he is not.³³

Like Adam Smith, Fichte was reacting to the excesses of Mercantilism, an economic theory that had turned commerce into perpetual warfare. Smith's solution, based on the empirical tradition, was free trade. Fichte, reacting to Smith and energized by Kant's rehabilitation of rationalism through the discovery of the synthetic a priori, and feeling that he could deduce the characteristics of the Rational State from his understanding of property as exclusive activity, went in the opposite direction by closing off the state and banning all private commerce beyond its borders. Since commerce leads to war, "Security at home can only be brought about by the complete closing of the commercial state to the outside world."³⁴

By 1800, Smith's hopes for free trade as the road to peace had proven illusory, and so Fichte took the opposite tack. If English free trade had not solved the commercial warfare problem, the Germans would try the opposite solution, namely, no trade. Fichte concluded that "the only way to insulate property relations from the pressures of international power politics and expose them to greater considerations of justice was to construct a largely self-sufficient national economy."³⁵ The state needed to close off its borders and take dominion over commerce in the same way that it previously closed off its borders to give its legal system dominion over the political process.

That means that if there is to be foreign trade, the state itself and by itself alone should engage in it, "just as the state alone is responsible for waging war and making peace and signing treaties."³⁶ The goal of the Rational State (*der Vernunftstaat*) is not the freedom of the individual; it is the good

of all of its citizens. Similarly, any prosperity “should be the prosperity of the nation, not of a few individuals, whose riches are the most obvious sign of and the basic reason for the highest maladies of the nation.”⁵⁷

The *Closed Commercial State* is an alternative to the English police-state Capitalism which got created in the wake of the Reformation’s theft of Church property. The Reformation ushered in a system in which the rich wage economic warfare against their own fellow citizens. Under that system:

hatred toward the government grows in the heart of its subjects, and with this hatred a war against the government ensues, which is carried on through deception at first and then eventuates in open warfare. Smuggling proliferates, and an artificial system of fraud. Cheating the government ceases to be a delict in the mind of the populace and becomes instead a permitted and even praiseworthy expression of self-defense against a common enemy. And the man who refuses to go along with this general custom finds it impossible to continue in business. . . . Against this enmity of the subjects, the government has recourse to harsh and malignant countermeasures, which are aimed at the embittered members of the lower bureaucracy . . . houses are subject to search for no reason. People are encouraged to spy on each other for money . . . one unhappy man who gets caught is unpunished with unreasonable severity while thousands who are even more devious mock the proceedings. Bitterness grows.⁵⁸

The conclusion was inescapable: in order to emerge from a state of chronic commercial anarchy, the state must:

close off completely all commerce with foreigners, and from then on start to create an isolated commercial body just as it already has created an isolated juridical and political body. If the first closing is accomplished everything else follows easily.⁵⁹

The simplest way for the Rational State to rectify the situation of universal commercial warfare is to take control of its money supply. It does this by simultaneously closing off its borders, abolishing international money (by confiscating its citizens’ “*Weltgelde*,” i.e., gold and silver) and establishing its own national currency out a material that is attractive but worthless, as long as it is not made out of paper.⁶⁰ Because the citizens in a closed commercial state cannot engage in foreign trade, they have no need of international money—i.e., gold and silver—and since they have no need of gold, the state can make money out of anything it chooses. Creating national money would have the added benefit of creating fraternity, because international money ruins national solidarity. National money is necessary for national solidarity, because a citizen in possession of gold or silver (*Weltgeld*) has a closer relationship to foreigners who have gold and silver than to the citizens of his own country: “if the juridical state does nothing to create a commercial society, and each individual citizen can just as easily enter into a commercial relationship with foreigners as with his fellow

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citizens . . . because in his dealings he is not a fellow citizen but rather a free individual.”⁶¹

To bring about peace, the state has to put an end to the “anarchy of trade” just as it put an end to the political anarchy that had reigned in Europe after the fall of the Roman Empire. It can do this only by closing its borders: “The Closed Commercial State required that states thoroughly extricate themselves from the competition for international markets and reorient their economies for domestic production.”⁶² The creation of national money was the most important step in the “completion” of the state. Indeed, “The introduction of the national currency is its true creation.”

Fichte's monetary policy derived from Mirabeau's letter to Frederick Wilhelm II and Struensee's policies as Prussian finance minister, which is why he dedicated the *Closed Commercial State* to Struensee, who was both patron and co-belligerent in the discussions over whether the Prussians should ally themselves with the English or the French. But their policies derived ultimately from John Law. Indeed, Fichte's proposal was more radical than Law's because Fichte was proposing “a pure fiat currency whose value was backed solely by the credit of the state, not by land or trading company assets, as it was in most 18th century projects, both real and imagined.”⁶³ Like John Law and his French followers, a group which would include Count Struensee, Fichte felt that:

a state could extract itself from commercial rivalry by seizing control of the monetary system. Complete control over the money supply would enable the state to nationalize all foreign trade and give it the resources to begin increasing its economic independence.⁶⁴

Fichte proposed that the state seize control of the money supply in one decisive step by removing all gold and silver currency from circulation and replacing it with a fiat currency, or a form of money whose value was backed solely by the word of the state. Those who refused to exchange their specie for the new national money were free to emigrate, but they would not be permitted to liquidate their property before leaving.

As Fichte gets into the details of how the closure of the state is to be carried out, the state becomes more intrusive and the plan progressively more Utopian. To close the commercial state, government agents would “purchase all foreign goods available through the state.”⁶⁵ The state would then become the “intermediary” in all commercial transactions with foreigners. It would then determine the prices of all domestic good independently of their price on the world market. The state would fund all of this activity from the Weltgeld which it had confiscated when national money had been introduced. That confiscated money would also fund centrally planned industrialization.

The net result would be the right to work, which Fichte argued flowed

logically from Rousseau's notion of the social contract. The state could only fulfill its end of the social contract if it guaranteed work, and it could only guarantee work if it had control of the economy, and it could only take control of the economy if issued its own money, and it could only issue its own money if it closed its borders and confiscated all *Weltgeld*. Everything flowed logically, it seemed, from Fichte's understanding of property, but in articulating the implementation in detail, Fichte's project began to sound like its own *reductio ad absurdum*. The state needed to become omnicompetent in order to fulfill its proper role. It would not only need to determine the number of artisans, "but the number of artisans in each particular branch" in order "to ensure the production of essentials."⁶⁶ The goal was to re-introduce the justice which Newtonian mechanisms and reliance on invisible hands had banished from the economy, but the methods needed to achieve that goal were onerous to the point of absurdity:

Before someone gets to decorate his house, all must have enough to eat and have a secure place to live. Everyone needs to be comfortably and warmly clothed before someone gets to dress ostentatiously. A state in which agriculture is in a primitive state, which needs many hands to produce food, and one which lacks the normal amount of mechanics, can have no luxuries. This is not a matter of someone saying: "I can afford it." It is unjust that one man can afford things that aren't necessary, while at the same time his fellow citizen can't find necessities or can't afford to pay for them. The money which the one uses to pay for luxuries is not his according to the legal code of the Rational State.⁶⁷

At a certain point the Utopian nature of a world without trade becomes too obvious to ignore. Fichte decrees that "every man should be satisfied with the bounty of the climate in which he lives and the art of the inhabitants he lives with."⁶⁸ If the people of Iceland were unwilling to forego the enjoyment of wine, they were free to leave and go elsewhere. Fichte conceded that "It's clear that certain products can't be grown or can't be grown advantageously in certain climates." But he felt that "replacement products can be found in every temperate climate if the citizens spare no effort or expense."⁶⁹ But to spare no expense to find a substitute for, say, wine when wine can be produced cheaply and abundantly somewhere else violates the most fundamental economic principle. Fichte conceded an element of difficulty in the implementation of his plan when he admitted that:

it's easy to imagine that it would be difficult to suddenly have to do without Chinese tea, or furs in winter or a light dress in summer. But there's no reason why the first has to be sable or the latter made out of silk, if the desire isn't for sable or silk, but no matter. The citizens would be informed in advance of these measures [ending imports] and as a result of the tacit approval of the state the continued enjoyment of these wares would disappear. The gradual dishabituation of the nation on enjoyments which could not be enjoyed in the future needs to be construed in light of needs which really contribute to the well being of the nation

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and those which have been created by the manipulation of opinion.⁷⁰

The closure of the state also involved expanding its borders, by force if necessary, as well as ethnic cleansing, something that becomes clear when Fichte writes:

it would be expedient to take a percentage of the new occupants from the provinces and in a friendly way move them into the mother land, and in their place have occupants form the mother land sent to the new provinces, so that the old and new citizens can melt into one people.⁷¹

In proposing *Anschluss* and ethnic cleansing, Fichte's closed commercial state resembled the Third Reich, but in its emphasis on closure, it resembled even more strikingly the Deutsche Demokratische Republik, the socialist state which came into being in Soviet occupied Germany after World War II. The DDR's most famous artifact was, after all the Berlin Wall, which was part of an armed perimeter which separated the DDR, if not from the entire outside world, then certainly from the hated West, which was dominated by capitalism's two main supporters, England and the United States. Like the DDR, the closed commercial state would have "no political engagement with the outside world" because there was "no reason to cross over their mutual borders." And there was no reason to do that because "no one can fall into poverty or want once the state is closed."⁷² Fichte concedes that the "mass migration of those who find the new order burdensome might be a problem but only at the beginning. . . . But the state loses nothing by getting rid of people like this."⁷³ As in the DDR during the Cold War,

Only the educated classes and the higher artists would be allowed to travel in the closed commercial society. Idle curiosity and the compulsion for distraction would not longer be permitted, to drag their boredom through every country. . . . The government will send intellectuals and artists abroad so that when they return they will discourage the desire to travel.⁷⁴

After reading the catalogue of the draconian measures that were necessary for the closure of the state, it is difficult to discern whether Fichte is being ironic when he adds as his final caveat: "it's important not to impose things that will only create resistance and can never be implemented."⁷⁵

Contemporary reviewers dismissed *The Closed Commercial State* as utopian, which, of course, it was. Adam Mueller, considered by many to be the father of the science of German national economics (*die deutsche Volkswirtschaftswissenschaft*) blasted Fichte for incompetence in a "scathing review" which appeared in the *Neue Berlinische Monatsschrift*, proclaiming Fichte's complete ignorance of political economy. The review was "so mean-spirited that even Friedrich Gentz, Mueller's patron and certainly no friend of Fichte's, strongly chastised him for his impropriety."⁷⁶

In 1802 Ludwig Hestermann published "a book-length rebuttal of Fichte's

te's work," with the title of the *Open Commercial State*.⁷⁷ Like Mueller, who recommended *Wealth of Nations* as the antidote to Fichte's *Closed Commercial State*, Ludwig Hesterman took the English position, claiming that the increase in prosperity and natural liberty which the English system engendered more than made up for the inequality which everyone now conceded was its major outcome. Fichte sided with Rousseau against the English and the *Closed Commercial State* was his attempt "to apply Rousseau's theory of the general will to property relations in a modern economy with an extensive and expanding division of labor."⁷⁸ Fichte took issue with the English ideology, whose fundamental assertion was that commerce led to peace. Friedrich Schleiermacher, as a representative of the Enlightened Protestant clergy in the German-speaking world, concluded that the Closed Commercial State represented "a step backward toward the original condition of isolation which is in contradiction with the general ethical tendency."⁷⁹

Nakhimovsky's verdict on *The Closed Commercial State* is not all that far removed from that of Fichte's contemporaries. He calls it, "The irresponsible product of a feverishly utopian imagination. In its zeal to establish heaven on earth, it ran roughshod over the political constraints imposed by a corrupt commercial age, and promised to destroy whatever hope of redemption that age might continue to entertain."⁸⁰ The editors of the most recent edition of CCS claim that Fichte "did not succeed in the integration of these ideas into a logical economic model,"⁸¹ and that "Fichte's economic system proved to be a failure, especially if we judge it according to the moral criteria of his own philosophy,"⁸² but Friedrich Romig, who compares Fichte favorably with the excesses of 21st century globalism disagrees. "Why," Romig wonders, "should the citizen affirm the state, when it doesn't protect the existential basis for the citizen's existence, namely, his job? We now have a situation in many countries in the Far East in which work is dirt cheap. The big firms can maximalize their profits by setting up factories wherever the costs are the cheapest, but 'the people,' which is to say a unified body which can act through government is totally suppressed in the process. The result is a complete extinction of the national economy."⁸³

Ignoring Fichte's excesses describing in detail the steps necessary to closing the state, Romig claims that the central truth of Fichte's *Geschlossene Handelstaat* remains unchallenged after 200 years of debate on free trade. The right to work or the guaranteed existence of the citizens which thinkers as recent as Robert Reich have mentioned is not realizable without the closing of the commercial state, and anyone who thinks logically must admit this. Fichte proved that 200 years ago and his arguments are as convincing today as they were then. Truths of reason don't change, unlike

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truths of fact, which are based on empirical facts which are different from place to place and time to time and are in constant flux. Whenever any country outsources its shirt manufacturing to someplace like Hong Kong, it cuts off his own arm in the process because outsourcing is tantamount to dismembering the body economic. With the disappearance of shirt makers, that nation's textile industry will also eventually disappear, and with textile all of the related branches of the clothing industry. So, according to Romig, far from failing, Fichte got it right because only the closing of the commercial state can insure the continued existence of its citizens, the social order, and their inner peace and justice over the long haul. By the same token, domestic producers can't ensure their ability to meet the demands of the domestic market if they are permitted to import unlimited quantities of manufactured items from abroad.

Fichte and Kant and Smith and Hume shared awe of the Newtonian system, an awe which blinded them to the fact that creation has its own teleology. In creating his economic system, Fichte accepted the Newtonian universe every bit as completely as Adam Smith had. This meant acceptance of a totally mathematical nature which had no teleology. Operating out of a series of presuppositions that were equally Cartesian and Newtonian, Fichte saw trade as an arbitrary human creation that could be adjusted and corrected according to a priori principles. For Fichte this meant banning trade from the closed commercial state. Blinded by the inappropriately a priori nature of his thinking and an equally blind acceptance of a dead universe where all motion was violent motion initiated from without, Fichte failed to see that commerce was part of the plan of creation.

Operating from a scholastic philosophical base, Pesch saw nature as having a purpose. The fact that God created a world in which natural resources were distributed unequally throughout the earth meant that God intended human beings to engage in commerce. A man who correctly understood the teleology of nature would promote trade as part of God's plan because Nature produces some goods almost without effort in some regions and only with the utmost difficulty in others, making trade in surpluses the natural solution.

Pesch represented the golden mean between English free trade and Fichte's closed commercial state. Pesch was a defender of the national economy, who felt that the common good trumps individual self-interest:

Over the selfish interests of individuals there is the interest of the community; and over the economic principle, there is the national economic principle: the ultimate and at the same time the most general national welfare is to be achieved with the least sacrifice. It would be foolish and reckless to be willing to sacrifice the general material wealth, the true goal of the national economy, to technical progress and to competition, which come into consideration only as a means toward the wealth of the nation, and to permit one's own nation to be ruined

so that the "human race" can supposedly climb to a higher level of evolution.⁸⁴

A particular principle or practice is good if it serves the common good. Competition, to give just one example, is good as long as it is "considered in terms of the national economy, as applied to the law of the economy of forces. . . . Where competition serves the general economic welfare, it is legitimate, and conversely, insofar as it is damaging to it, it should not be applied simply for its own sake." The same is true of free trade. Instead of seeing it as the universal economic panacea or, as in the case of Fichte, banning all trade in reaction to the excesses of the English, Pesch claims that "We . . . want . . . only the regulation of the influence of international competition according to a very definite objective, namely the preservation of a greatest possible number of economically, autonomous entities within a given national economy."

Unlike the Manchester School, Pesch defended the national economy, and not just the freedom of individuals to enrich themselves:

The supposition of the liberal theorists is false: international trade has not only bright sides, but also shadow sides. Complete free international competition in many cases certainly does not operate solely for the advantage of the whole national economy. Specifically, the economy is severely damaged when a country in the one-sided interests of its export industries dedicates itself to the principle of absolute freedom of trade, and has sacrificed thriving domestic branches of production to foreign competition. The result must be that such a country is eventually dependent on the import also of such products which can just as well be produced at home . . . it can also bring cheap and harmful goods into the country. The main thing, however, continues to be . . . the decline of many producers who were not up to meeting foreign competition. . . . If foreign competition is not confronted with any barriers, the ruin of the domestic producers in question is thereby inevitable.⁸⁵

Pesch rejects free trade as a fundamental principle to which every other economic good must subordinate itself. The ultimate good is the good of the national economy. Pesch rejected "as flawed and harmful any theory which tries to make of absolute free trade a principle or a natural law of cultural development. All that is absolute is the obligation of the authorities in a politically organized nation to foster as much as it can the general welfare and to avert all harm."⁸⁶ Free trade can often bring cheap goods into a country but all too often at the expense of local industry, which eventually gets driven to the wall by products which undercut its prices. If cheap goods cause the loss of jobs the country ends up being poorer and will eventually be in a position where it can't afford to buy anything no matter how cheap.

Or as Pesch puts it: "More important than cheap consumption are the wealth and the buying power of the broad masses of the people. For an im-

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poverished nation even the cheapest foreign product is still too expensive. . . The nation will become . . . poor if its production gets no protection from abroad."⁸⁷

Because of its dogmatic commitment to free trade during the 19th century, England destroyed its domestic economy, even with all of the advantages it had over other countries with regard to trade because of its "advantaged geographical situation and because of the peculiar nature of its colonial, industrial and mercantile development."⁸⁸ The net result was riches for a few merchants and poverty for everyone else:

One is appalled when looking . . . at the statistical investigation of living conditions of the inhabitants of London, as these were published by Charles Booth and others. 31% of the population lives in complete misery. 52 % belong to the regularly employed working class. The middle and upper classes are made up only 17 % The farmer class in England has been destroyed.⁸⁹

This destruction flowed naturally from the fundamental premises of Capitalism, namely moral Newtonianism and Darwinism, its 19th century variant. Both premises undermined, if not totally obliterated, any application of moral principle to the economy and thereby left all of the worst aspects of greed and self-interest (which were supposed to be held in control by pseudo-natural mechanisms like the invisible hand) unchecked. As a result "the alleged 'natural laws' of cultural development" led naturally to the "total dissolution of the national economy."⁹⁰

Fichte created the closed commercial state as his theoretical antidote to England, where: "The individual stands face to face directly with the whole world, defenseless and with no restrictions, preoccupied solely with his own advantage." It was a danger which Pesch recognized. However, unlike Fichte, Pesch felt

that commercial trade with foreign nations, which is held within proper bounds, is also a very important means toward the development of the national welfare. International commercial traffic brings many useful goods into a country, which the inhabitants would otherwise have to do without.⁹¹

Eventually, the world would experiment with both extremes without ever finding the mean that Pesch had written about. On the one hand, Communism, in the name of Internationalism, would create countries like the DDR, Albania and North Korea, where the closing of the state meant the imprisonment of its people. On the other hand, when the Berlin Wall came down in 1989, the West threw off all restraints and committed itself to a globalism that has led to the destruction of the national manufacturing base in former industrial powers like the United States and England, and its replacement by a network of third world sweatshops in places like China, which combines the worst of both worlds, ruthless exploitation of the worker in the name of the still officially recognized Communism and ruth-

less laissez faire Capitalism and enormous wealth for the now billionaire children of the former Communist nomenklatura. Behind the New World Order which emerged after the fall of the Berlin Wall in 1989 arose the great ignis fatuus of "a single world-wide republic" which replaced the nation state. What appeared on the surface to be Catholic⁹² turned out to be nothing more than mercantile elites exploiting wage differentials among governments which have given up all pretense of defending their own workers. "Do these liberal theorists," Pesch wonders:

actually believe in a single, world-wide republic, with one common general welfare as the purpose of the all-encumbering state, or do they hold fast to the independence of their nation and their state? In the latter case there is a specific general welfare for each state, and the solidarity of the citizens of the state among one another ranks far higher than international solidarity, which is based on world trade. That is because the state as society is in fact a far narrower, firmer, higher society than that which one chooses to call the society of humanity.⁹³

If nothing else, Globalism has shown empirically that:

the dissolution of the national economy involves itself in the ruin of nations. . . . An economic system which eventually can only deal in terms of high finance, big capital and servile proletarians—such a theory does not have even a remote idea of what the happiness and wealth of nations is supposed to mean. It signifies . . . only retrogression to the most brutal forms of competition. The "surviving" mercantile exploitative nations, however, would eventually have to protect themselves with weapons in hand against the unhappy, the desperate nations whose well-being they have destroyed. The end of the song would be international mayhem and a total decline of humanity into barbarism.

Sieyes eventually wrote a book about Prussia based on his stay there, but he returned to France without a treaty in spite of the support of people like Struensee and Fichte. On October 14, 1806, the issue of a Prussian treaty with France became moot when Napoleon defeated the Prussian army at the Battle of Jena. Hegel, who was in Jena, teaching at the university which had fired Fichte for atheism, watched from his window as Napoleon, the conqueror, rode into town and felt that he was watching the *Zeitgeist* on horseback bringing an end to history.⁹⁴

History may not have ended, but the history of Germany was subjected to radical change by the French invasion. Heinrich Heine was only nine years old when he watched French troops march into Duesseldorf, but the memory was more deeply etched in his mind than Hegel's because of the personal consequences Heine experienced as a result of the conquest.

One of the first things Napoleon did after conquering German territory was to emancipate the Jews. Jews were granted full political rights for the first time in their more than millennium-long sojourn in the German speaking world. The bonds Jews had acquired with the Germans were as immemorial as they were ineradicable. Their language was a Germanic

language, but now for the first time in that history the Jews were citizens on an equal footing with the Germans. They were no longer despised resident aliens, symbolized by the iconography of the *Judensau*, a large pig depicted in many German cities (in Regensburg on the façade of the cathedral) which showed Jews sucking at the pigs teats. As if that weren't insulting enough, one Jew sat astride the pig facing backwards and lifting the pig's tail so that another Jew could lick the pig's excrement. The change was so astounding for Heine that he, like many other Jews, was tempted to see Napoleon as the Messiah, because, as he put it: "These lips had only to whistle and the clergy was finished. These lips had only to whistle and the entire Holy Roman Empire of the German nation would dance to his tune."⁹⁵

Endnotes

- 1 Etienne Gilson, *The Unity of Philosophical Experience*, (New York: Charles Scribner's Sons, 1947), p. 240.
- 2 Johann Gottlieb Fichte, *Der Geschlossene Handelsstaat* (Hamburg: Felix Meiner Verlag, 1979), p. 63 (my translation).
- 3 Isaac Nakhimovsky, *The Closed Commercial State: Perpetual Peace and Commercial Society from Rousseau to Fichte*, (Princeton, NJ: Princeton University Press, 2011), p. 10.
- 4 Ibid.
- 5 Nakhimovsky, pp. 23-4.
- 6 Nakhimovsky, p. 66.
- 7 Nakhimovsky, p. 67.
- 8 Ibid.
- 9 Nakhimovsky, p. 37.
- 10 Nakhimovsky, p. 37n
- 11 Nakhimovsky, p. 64.
- 12 Romig claims that this was true only of their "immature youthful period." Es ist sicher richtig, dass Kant und auch die „Tübinger Bande“ (Schelling, Fichte, Hegel) und auch Kant die Franz. Revolution und „Aufklärung“ begrüßt haben, aber eben nur in ihrer unreifen, jugendlichen Periode, und sich auch Kant von den Schälmeien „des ewigen Friedens“ in der Weltrepublik blenden liessen. Sie sind alsbald davon abgerückt und zu entschiedenen Gegnern der Französischen Revolution und Aufklärung geworden (am wenigsten noch Kant), und diese Gegnerschaft bestimmt gute Philosophie bis heute – und zwar auch in den politischen Folgerungen (Ablehnung von Menschenrechten, Demokratie, Marktwirtschaft, Globalisierung etc.).
- 13 Nakhimovsky, p. 89.
- 14 Nakhimovsky, p. 11.
- 15 Nakhimovsky, pp. 86-7.
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- 17 Nakhimovsky, p. 87.
- 18 Nakhimovsky, p. 89.
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- 27 Nakhimovsky, p. 99.
- 28 Nakhimovsky, p. 85.
- 29 Nakhimovsky, p. 100.
- 30 Nakhimovsky, p. 104.
- 31 Nakhimovsky, p. 128.
- 32 "Deutscher Idealismus", *Wikipedia*. http://de.wikipedia.org/wiki/Deutscher_Idealismus.
- 33 Ibid
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- 35 Pesch, *Lehrbuch*, pp. 217-8.
- 36 Spann, p. 216.
- 37 Spann, p. 64.
- 38 Ibid.
- 39 Spann, p. 154.
- 40 Nakhimovsky, p. 90.
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- 42 Ibid.
- 43 Fichte, pp. 71-2.
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- 45 Fichte, p. 60.
- 46 Fichte, p. 67.
- 47 Ibid.
- 48 Fichte, p. 77.
- 49 Nakhimovsky, p. 139.
- 50 Nakhimovsky, p. 140.
- 51 Fichte, p. 34.
- 52 Ibid.
- 53 Ibid.
- 54 Fichte, p. 84.
- 55 Nakhimovsky, p. 166.

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- 56 Fichte, p. 35.
- 57 Fichte, p. 37.
- 58 Fichte, pp. 87-8.
- 59 Fichte, p. 90.
- 60 Fichte, p. 31.
- 61 Fichte, pp. 73-4.
- 62 Nakhimovsky, p. 82.
- 63 Nakhimovsky, p. 124.
- 64 Nakhimovsky, p. 76.
- 65 Nakhimovsky, p. 108.
- 66 Fichte, p. 22.
- 67 Fichte, p. 23.
- 68 Fichte, p. 92
- 69 Ibid.
- 70 Ibid.
- 71 Nakhimovsky, p. 117.
- 72 Fichte, p. 118.
- 73 Fichte, p. 120.
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- 75 Fichte, p. 121.
- 76 Nakhimovsky, p. 129.
- 77 Nakhimovsky, p. 130.
- 78 Ibid.
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- 80 Nakhimovsky, p. 167.
- 81 Fichte, p. 58.
- 82 Fichte, p. 57.
- 83 Friedrich Romig, *Globalisierung oder "geschlossener Handelsstaat"?*, privately circulated ms.
- 84 Pesch, *Lehrbuch*, pp. 218-9.
- 85 Pesch, *Lehrbuch*, pp. 219-220.
- 86 Pesch, *Lehrbuch*, pp. 221.
- 87 Pesch, *Lehrbuch*, p. 222.
- 88 Pesch, *Lehrbuch*, p. 226.
- 89 Ibid.
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- 91 Ibid.
- 92 See Robert Sirico, *Defending the Free Market*, for a defense of globalism as Catholic.
- 93 Pesch, *Lehrbuch*, p. 227.
- 94 Amos Elon, *The Pity of It All: A History of Jews in Germany 1743-1933* (New York: Metropolitan Books, 2002), p. 96.
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Chapter Sixty-Four

Napoleon Emancipates the Jews

Once Napoleon defeated the Prussian army at Jena in October 1806, he turned his avarice-sharpened eyes on Prince William of Hesse-Kassel. Prince William's army was no match for Napoleon's, but his ability to rent it out to nations like England, which had stationed Hessians in Trenton, New Jersey, where they had been attacked by George Washington, had provided him with an admirable stream of income. Prince William had, in fact, grown rich as a supplier of mercenaries, and now Napoleon wanted his money. On November 2, General Lagrange, under Napoleon's orders, occupied Prince William's residence in Kassel and installed himself there as Governor-General. Two days later Lagrange announced the confiscation of Prince William's assets forcing him to dispose of what he could and flee to England with the rest.

Knowing that it was physically impossible for him to take a fortune this large with him on his hasty flight out of the country, Prince William turned to his Jewish banker Mayer Amschel Rothschild for assistance, and Rothschild, so the story goes, agreed to take care of the prince's movable wealth for him. With the French army battering down the gates of Frankfurt in the distance, Mayer Amschel succeeded in burying the prince's treasure in his garden, a gesture which forced him to leave his own fortune of roughly 40,000 gulden exposed, which therefore ended up being confiscated by the French. It was a gesture of heroic financial self-sacrifice on Mayer Amschel's part, and the prince was deeply moved by it. When the prince finally returned to pick up his money from Mayer Amschel, he was so moved in fact, that he didn't pick up his money. "I will neither receive the interest which your honesty offers nor yet take money out of your hands," the prince said to the elder Rothschild. "The interest is not sufficient to replace what you lost to save mine; and further my money shall be at your service for 20 years to come and at no more than two percent interest."¹

The story of Rothschild's heroic self-sacrifice and Prince William's gratitude first appeared in print in the 1827 edition of F. A. Brockhaus's *General German Encyclopedia for the Educated Classes*.² The man who wrote the entry was Friedrich von Gentz, the representative of English interests in the German speaking world, who was also the patron of Adam Mueller and had ordered him to apologize for the intemperate nature of his attack on Fichte when reviewing *Der Geschlossene Handelstaat*. Gentz was also secretary to Metternich, who would receive numerous favors from

the Rothschilds in the years to come. So it is not far-fetched to think that Gentz embellished his account to make the Rothschilds look good, especially since in private he referred to them as “common ignorant Jews, who exercise their craft quite naturalistically [that is instinctively] with no idea of the more elevated relationships between things.”³

In spite of his private opinion of the Rothschilds, Gentz continued to run interference for them in the court of public opinion, sending for example, “instructions to newspapers like the *Allgemeine Zeitung* that the Rothschilds should not be criticized.”⁴ The Rothschilds were grateful because Gentz related the story that they wanted told, namely, that they were “willing to risk everything rather than fail to protect and pay interest on a client’s money.”⁵ Over a half a century later, and almost 50 years after Mayer Amschel had gone to the reward which usurers can expect in the next life, the family, still intent on perpetuating the same myth, commissioned Moritz Daniel Oppenheim to do two paintings on this theme. Ferguson claims that:

the story is fiction—though like so much of the Rothschild myth, it contains a very tiny grain of truth. In fact, William’s movable property was widely dispersed in the period after the French occupation and only a few relatively unimportant items came into Mayer Amschel’s possession.⁶

The reality behind this fiction is that once Napoleon’s armies started plundering one principality of the now-defunct Holy Roman Empire after another, England became the only safe haven for the continent’s wealth. Since “one of the most important financial consequences of the French wars was a large migration of capital from the continent to London,”⁷ and since the effect of the French wars had felt in Frankfurt since 1792, it should come as no surprise that Mayer Amschel should send one of his five sons to London to profit from this massive, war-inspired movement of capital.

At around the time that Prince William gave his money to Mayer Amschel for safekeeping, Mayer’s son Nathan left for England. In October 1806 Nathan married Hannah Cohen, the daughter of Levi Barent Cohen, a leading London merchant.⁸ Together Nathan and his new father-in-law embarked on a career in smuggling. In October 1807, Nathan smuggled a shipload of coffee to Sweden via Amsterdam, “using an American-registered ship and fake Dutch documents.”⁹ From smuggler it was only a small step to currency speculator and then full-fledged banker, a step that Nathan accomplished with the help of the money which Prince William had entrusted to Mayer Amschel for safe-keeping. In Nathan’s hands the elector’s money became the basis of the Rothschild family fortune. Nathan’s brother Carl alluded to this fact when claimed that “the Old Man”—meaning Prince William the Elector of Hesse-Kassel—had “made our fortune.

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If Nathan had not had the Elector's 300,000 pounds [sic] in hand he would have got nowhere."¹⁰ That sum was far from insignificant. Prince William came into a fortune of somewhere between 30 and 40 million gulden when he ascended to the throne of Hesse-Kassel:

The contemporary view that he was one of the richest of European "capitalists" was not far wrong. From the point of view of an aspirant banker like Mayer Amschel, William therefore exerted a magnetic attraction. Not only was there money to be made from buying and reselling his English bills; there was also money to be made from placing his immense and constantly growing capital in secure investments.¹¹

It was also a great time to get into smuggling or banking. From 1793 until 1815, England was at war with France, and France was at war with England and every other power on the continent. Since England was the crucial ally of every European power which opposed Napoleon, she was in desperate need of someone who could provision troops on the continent and ship bullion to allies in need of specie to pay their troops. Nathan Rothschild was the ideal candidate for that job. He was versed in smuggling and had, it seemed, unlimited resources at his disposal which he was willing to lend at interest. He also was a member of a financial family which had branches in the major financial capitals of Europe. In addition to Amschel, who had taken over his father's position in Frankfurt, Nathan had brothers running branches of the Rothschild firm in Paris, Vienna, and Naples.

On his way back to Paris after his stunning victory over the Austrians at the battle of Austerlitz on December 2, 1805, Napoleon stopped in Strasbourg, where the town's residents complained to him about the behavior of the Jews in the 15 years since their emancipation. Since equality was one of the intellectual pillars of the French Revolution, one of the first consequences of that revolution was the emancipation of French Jews, which the National Assembly decreed in 1791. Strasbourg, which to this day still rings a bell signalling that it is time for Jews to leave the city, had created a series of laws which protected the Christian population against the predatory economic behavior of the Jews. All of these laws had been swept aside with the revolution's emancipation decree, but Jewish behavior had not changed as a result. The Jews continued to exploit their now fellow-citizens by all of the traditional methods, most notably usury. In the turmoil following the revolution, the Jews had lent money to the aspiring bourgeoisie who wanted to buy the property which the revolutionary government had stolen from the Church. When the value of revolution's paper currency, the assignat, collapsed, borrowers defaulted on their loans and their property fell into the hands of their Jewish creditors, which only confirmed in the mind of the sometimes French, sometimes German residents of Strasbourg the reason for laws protecting them from Jewish predatory economic

behavior. The revolution may have decreed equality a priori, but making a decree and ensuring that that decree conformed to reality were two different things. Citizenship was something that Jews exploited for their own advantage. As a result, after his arrival in Strassbourg, Napoleon was assaulted by complaints about the Jews.¹²

Disturbed by what he had learned in Strassbourg, Napoleon decided to convoke an assembly of Jews when he got back to Paris. In April of 1806, Napoleon ordered the Jewish Assembly of Notables to issue a proclamation to all the Jewish communities of Europe, inviting them to send delegates to a Grand Sanhedrin, which would convene on October 20.¹³ "The name was chosen to imply that the Grand Sanhedrin had the authority of the original Sanhedrin that had been the main legislative and judicial body of the Jewish people in classical and late antiquity."¹⁴ Because Napoleon had defeated the Prussians at the Battle of Jena only six days before the modern-day Sanhedrin was supposed to convene, the meeting was postponed until February 4, 1807. When the Jews finally assembled in Paris, Napoleon immediately put them on the defensive by asking them if they regarded Frenchmen as their brothers or as aliens.¹⁵ He then asked the Jews if they were loyal to France, to which the Jews replied with one voice, "*Jusqu'à la mort*,"¹⁶ which then enabled Napoleon to declare himself King of the Jews and enlist their support for his planned invasion of Russia, which would have to advance through the Pale of the Settlement, where the overwhelming majority of the world's Ashkenazim lived. Napoleon thought that emancipation followed by the convocation of the Sanhedrin, which was its de facto ratification, would lead the Jews, who were now the brothers of the French and on an equal footing with them politically, to curtail their predatory economic practices and stop taking usury on their loans. Nothing of the sort happened, of course, and over the course of the 19th century, the Strassbourgers' warning to Napoleon proved prophetic as emancipation gave rise, via capitalism and its necessary sequel revolution, to what came to be known as the Jewish Question.

In terms of the development of capitalism, the ferment which the Revolution's apodictic decree of equality for the Jews unleashed was much more virulent in the German principalities than in France, and in Frankfurt it would have the most far-reaching consequences of all.

In his memoir *Dichtung und Wahrheit*, Goethe remembered being traumatized as a child by the image of the *Judensau* prominently displayed on the main bridge leading into Frankfurt.¹⁷ Elon draws on Jewish indignation when he claims that it was affixed there not by bigoted individuals but by the city government, which paid for its upkeep when Goethe was a child.¹⁸

The economic ferment which would engulf Europe during the 19th cen-

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ture began in Frankfurt's *Judengasse*, a narrow, semi-circular alley, some ten to twelve feet wide, which ran from the Bornheimer gate in the north to the Jewish cemetery in the south. Ludwig Boerne, who came into this world in the *Judengasse* as Juda Loew Baruch and grew up there in the 1780s and 1790s, remembered it as a "long dark prison into which the highly celebrated light of the 18th century has not yet been able to penetrate. . . . An evil smell rises everywhere around us."¹⁹

One of the most prominent residents of the *Judengasse* during this crucial period of transition was a money lender and antique dealer by the name of Mayer Amschel Rothschild, who was born in a dilapidated tenement at the back of no. 188 *Judengasse* on February 23, 1744, five years before Goethe was born in another part of town. Goethe was a frequent visitor to the *Judengasse* as a youth.²⁰ The narrow and dark *Judengasse*, swarming with humanity, where the Jews had lived under their own laws and customs for centuries,²¹ exerted a perverse fascination over his mind, which he would later express in *Dichtung und Wahrheit*:

The confinement, the dirt, the swarm of people, the accents of an unpleasant tongue, all made a disagreeable impression, even when one only looked in when passing outside the gate. It took a long time before I ventured in alone; and I did not return easily after once escaping the obtrusiveness of so many people untiringly intent on haggling, either demanding or offering . . . And yet, they were also human beings, energetic, agreeable, and even their obstinacy in sticking to their own customs, one could not deny it respect. Moreover, their girls were pretty. . . .²²

The avant garde of the French Revolutionary Army made its first contact with Frankfurt in October 1792:

when French troops temporarily occupied Frankfurt, just ten weeks after the coronation of the Holy Roman Emperor, Francis II." . . . In 1796, following the defeat of the Austrian army at Lodi, Frankfurt was bombarded by the victorious French forces so heavily that nearly half the houses in the *Judengasse* were destroyed by fire. . . . The destruction of the *Judengasse* obliged the Frankfurt Senate to relax its residence requirements. . . . Later French incursions led to a real, if temporary improvement in the legal status of the Frankfurt Jews, an improvement foreshadowed by the emancipation of the Jews in those parts of the Rheinland which the French now annexed.²³

The Rothschilds came from the *Judengasse* in Frankfurt, whereas Goethe came from one of the most prominent families of Frankfurt's commercial aristocracy. Mayer Amschel Rothschild would found a dynasty which would eclipse German economic hegemony in the days following emancipation, but Frankfurt was a major commercial center when Goethe and Mayer Amschel Rothschild lived there. It was

a city of merchants, bankers and craftsmen. Bankers often doubled as wholesale merchants, hence the so-called "merchant bankers." There was much need of

merchant bankers in Frankfurt. Favored by a unique geographic position, the city was at the junction of five major international land routes linking England and the Netherlands with Russia and Venice and France with the Hanseatic towns of the north. Equally important, at a time when down-river transport was the cheapest and most efficient, was Frankfurt's position on the banks of the river Main, close to where that river flowed into the Rhine, Europe's most important artery.²⁴

Until the advent of the French Revolution, onerous regulation dominated every aspect of Jewish life in Frankfurt's *Judengasse*:

Jews were allowed to enter the rest of the city only on business, never for leisure and never more than two abreast. They were forbidden to linger in a public square, visit an inn or coffee house, enter a park or walk in one of the new promenades. They could not hire a Christian servant. They were banned at all times from the vicinity of Frankfurt's main cathedral and could enter the town hall only through a back entrance. Not all of these prohibitions were always enforced and some were observed only sporadically. On the rare occasions when the senate agreed to relax one of the more stringent regulations, self-satisfied and mean-spirited merchants in the town guilds rose up to oppose it. . . . Jews were forbidden to open shops outside the *Judengasse*, and when caught peddling were heavily fined.²⁵

The French Revolution changed in the status of Jews in Europe:

Before 1789, Mayer Amschel Rothschild and his family's lives had been circumscribed by discriminatory legislation, Jews were prohibited from farming, or from dealing in weapons, spices, wine and grain. They were forbidden to live outside the ghetto and were confined there at night, on Sundays and during Christian festivals. They were subject to discriminatory taxation. No matter how hard Mayer Amschel worked . . . there were strict and low limits to what he could achieve. All that changed when the French exported their revolution to south Germany. Not only was the *Judengasse* opened; the legal restrictions on the Frankfurt Jews were also largely removed—thanks not least to Mayer Amschel's financial influence over Napoleon's henchman in the Rhineland, Karl von Dalberg.²⁶

The main reason these onerous conditions were imposed on the residents of the *Judengasse* was economic. Frankfurt was a city of hard-nosed businessmen. Writing to Goethe, Schiller described Frankfurt as a city ruled by money, "the god of this world."²⁷ Goethe agreed. Based on his experiences growing up there, Goethe said that the people of Frankfurt lived in "a frenzy of making money and spending it."²⁸ Heine rightly claimed that the reason for these regulations was "commercial rivalry": Jews "were selling English goods at 25 per cent under the factory price,"²⁹ a practice sure to drive their German competitors to the wall.

The French Revolution changed everything concerning the Germans' relations to the Jews, everything except Jewish behavior, which was now unleashed from centuries of repression based on customs and laws sym-

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bolized by the *Judensau*. Emancipation created unprecedented scope for Jewish economic activity, and that activity led to unprecedented resentment against the Jews on the part of the Germans, who had created the discriminatory prohibitions against the Jews based on centuries of economic experience.

The real issue was, as Heine indicated, commercial rivalry. The Jews were notorious for usury, for undercutting prices, and for other similar practices which put them at odds with the economic system which the Holy Roman Empire had put in place based on Catholic principles that went all the way back to the Benedictines and their rejection of the classical world's preference for usury. The Benedictines replaced usury with labor (*ora et labora*) as the foundation of the Christian economy. Since the Church had no way to impose her faith on the Jews, the Jews were left free (and often encouraged) to cultivate behaviors inimical to a Christian culture. This permission to engage in the predatory economic behavior to which the Jews were prone because of millennia of Talmudic studies necessitated their ghettoization. The Christian economy could not survive otherwise.

The prohibitions of the *Judengasse* were not a medieval relic. They were based on economic realities that could be ignored only at the peril of the revolutionaries who removed them by *force majeure*. The fact that they had to be removed this way testified to the economic wisdom which led to their implementation in the first place.

This was not just true of the principalities which were the heirs of the Holy Roman Empire. The threat to Protestant cultures was just as grave, even if it was only the conservative element who saw it as such. Fear of the economic practices of the Jews was not simply a relic of the medieval world. Referring to the Jews in England, the world's premier capitalist nation, during their rise to power in the first quarter of the 19th century (a rise brought about largely by Mayer Amschel's son, Nathan), William Cobbett expressed the traditional view when he wrote that the usury, "which arose out of the 'Reformation' derived from the practices of the Jews," who could not be citizens precisely because their widespread practice of predatory economic behavior (like usury) were so detrimental to the common good that they were incompatible with any possible notion of citizenship. The Jews, Cobbett conceded, practiced usury, but the only thing which kept this malicious practice within manageable bounds was the fact that: "Jews had no civil rights. They existed only by mere sufferance."³⁰ If the usury burden got out of hand, as it always did:

They could be shut up or banished or even sold at the king's pleasure. They were regarded as a sort of monsters, who professed to be the lineal descendants and to hold the opinions of those who had murdered the Son of God and the Saviour of Men. They were not permitted to practice their blasphemies openly. If they had

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synagogues, they were unseen by the people. The horrid wretches themselves were compelled to keep out of public view on Sundays and on Saints' Days. . . . They were not allowed to pollute with their presence the streets or the roads of a Christian country on days set aside for public devotion. In degraded wretches like these usury was tolerated, just for the same cause that incest is tolerated among dogs.³¹

If Jews were granted the rights of citizens, the state had no way of dealing with the inevitable and deleterious consequences of widespread debt. Using less colorful language, Ferguson concedes the same point: "An important fact [in the imposition of the regulations governing the *Judengasse* was that the Gentile business community genuinely feared the economic challenge which they believed would be posed by an emancipated Jewish population."³²

Werner Sombart goes into the "economic challenge" which the Jews proposed in some detail. His book *Die Juden und das Wirtschaftsleben* (translated into English as *Jews and Modern Capitalism*) appeared in 1911, at a time when the controversy over the Jewish question had been raging for decades. In spite of centuries of living in close proximity to each other, Jews and Germans had developed two separate and incompatible economic systems, whose differences could not be papered over by an apodictic claim that both groups were now "equal" and "citizens" of the same country.

The Jewish and the German economic systems were incompatible because their worldviews were incompatible. The German system was based on stability, on tilling the soil, and on providing a just return on labor; the Jewish system was based on money-lending, i.e., usury, which is to say predatory economic behavior that facilitated the systematic exploitation of non-Jews whenever they came in contact with them. Sombart claims that:

wherever Jews appeared as business competitors, complaints were heard that Christian traders suffered in consequence: their livelihood, we are told, was endangered, the Jews deprived them of their profits, their chances of existence were lessened because their customers went to Jews. . . .³³

Centuries of complaints about Jewish business practices provided evidence that the cause was systemic and that it involved more than just individuals abusing a fundamentally sound system. The source of both the German and Jewish economic systems was religious. The German system was Catholic and based on the Benedictine motto "*ora et labora*." The Jewish system was based on the Talmud, which taught Jews that cheating the *goyim* was praiseworthy. To back up this claim Sombart cites Heinrich Graetz, the father of Jewish historiography, who claimed in his *magnum opus* that the study of the Talmud had proven to be the moral undoing of Polish Jews:

To twist a phrase out of its meaning, to use all the tricks of the clever advocate, to play upon words, and to condemn what they did not know . . . such were the

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characteristics of the Polish Jew. . . . Honesty and right-thinking he lost as completely as simplicity and truthfulness. He made himself master of all the gymnastics of the Schools and applied them to obtain advantage over any one more cunning than himself. He took delight in cheating and overreaching, which gave him a sort of joy of victory. But his own people he could not treat that way: they were as knowing as he. It was the non-Jew who, to his loss, felt the consequences of the Talmudically trained mind of the Polish Jew.³⁴

Sombart is convinced that the differences are systemic and not attributable to the moral failings or virtues of particular individuals because:

the specifically Jewish characteristic consisted in that it was not an individual here and there who offended against the prevailing economic order, but the whole body of Jews. Jewish commercial conduct reflected the accepted point of view among Jewish traders. Hence Jews were never conscious of doing wrong, of being guilty of commercial immorality; their policy was in accordance with a system, which for them was the proper one. They were in the right; it was the other outlook that was wrong and stupid.³⁵

The lengthy list of grievances which Sombart supplies to back up his point indicates the systemic nature of the abuse:

In 1672 the Estates of Brandenburg complain that the Jews "take the bread out of the mouths of the other inhabitants." . . . In 1712 and 1717 the good citizens of the old town of Magdeburg object to the admission of Jews into their midst "because the welfare of the city and the success of traders depends on the fact that . . . no Jewish dealing is permitted here." . . . In 1740 Ettenheim made a communication to its bishop, wherein it was stated that "as is well-known, the Jews' low ways make only for loss and undoing." The same idea is voiced in the proverb, "All in that city doth decay, where Jews are plentiful as hay." In the preamble to the Prussian Edict of 1750, mention is made that "the big merchants of our town complain . . . that the Jews who deal in the same commodities as they do, lessen their business considerably."³⁶

The situation was no different in England, the world's premier capitalist country. When the commercial elites forced passage of the Jews' Naturalization Bill in 1753, the outrage of the population was so great that the bill had to be repealed one year later, leading Josiah Child to claim that, "The Jews are a subtil people . . . depriving the English merchant of that profit he would otherwise gain."³⁷ One century before the Naturalization Bill, Cromwell's attempt to bring the Jews into England prompted William Prynne's famous *Demurrall*, a catalogue of predatory Jewish business practices which was all the more pointed because it was issued by one of Cromwell's fellow Puritans, a group notorious for its philosemitism. Then, as when the Naturalization Bill was repealed, the great fear among the petty merchant class whose interests Prynne defended was that "if the Jews became English citizens, they would 'oust the natives from their employment.'"³⁸

The same complaints were heard in France, where the merchants of Paris “compared the Jews to wasps who make their way into the hive only to kill the bees, rip open their bodies and extract the honey stored in their entrails.”³⁹ In one country after another throughout Europe, the complaints were the same. The Jews were more successful than their Christian competitors not because they were better businessmen, but “because of their dishonest dealing. . . . Jews . . . have one law and custom whenever it pays them: it is called lying and cheating.”⁴⁰ The General Treasury for Merchants claimed that the Jews of Berlin “make their living by robbing and cheating, which, in their opinion, are not crimes.”⁴¹ The evidence leads Sombart to conclude that “the conflict between Jewish and Christian merchants was a struggle between two outlooks, between two radically differing—nay, opposite—views on economic life.”⁴²

According to the German or Medieval view, producers and traders’ income was to be determined by what was fair and “what was sufficient for your need,” which “tradition and custom determined.” Income was to be determined “by the standard of comfort in their station in life.”⁴³ Competition “was quite out of the question.”⁴⁴ It was especially “contemptible, unchristian and immoral” to lure customers away from another merchant, nor was it permissible to increase the size of a business to the point where it would ruin other businesses.⁴⁵

Advertising or “praising your wares” was strictly forbidden, and it was only with the rise of Jewish culture in places like Holland that change took place. It wasn’t until the middle of the 17th century that advertising began to appear in Holland. “The *Ghentsche Post-Tijdingen*, founded in 1667, contained the first business advertisement in its issue of October 3 of that year.”⁴⁶ The Jews’ claim to be “the fathers of modern advertising” is “well-established.”⁴⁷ An early example of the advertising that German merchants found so repugnant appeared in the *Vossische Zeitung* on May 28, 1711. It stated that, “This is to inform all and sundry that a Dutch (Jewish?) merchant has arrived at Mr. Boltzen’s in the Jews’ Street with all kinds of tea of the finest quality, to be sold cheap. And anyone who may care to buy should come early, as the visitor will not stay for more than eight days.”⁴⁸

Advertising that your prices were lower than your competitor’s was considered particularly nefarious. In 1745 DeFoe’s *Complete English Tradesman* complained that “this underselling practice is grown to such a shameful height that particular persons publicly advertise that they undersell the rest of the trade.”⁴⁹ The Jews were notorious for undercutting the prices of established merchants. Their penchant for undercutting prices made Jews “so disliked among Christian traders, whose economic outlook was all for maintaining prices.”⁵⁰ The same complaints were repeated over and over again: “The Jew undersells; the Jew spoils prices; the Jew tries to attract

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customers by low prices—that was the burden of the complaints heard in the 17th and 18th centuries wherever Jews did business.”⁵¹ One of the main reasons for the overturning of the Naturalization Bill of 1753 was that Jews “would oust the natives from their means of livelihood by underselling them.”⁵²

The same charge was even more common in Germany, where Jews were more numerous and Jewish competition posed more of a threat. The General Prussian Edict of 1750 stated that “The merchants of our towns . . . complain . . . that the Jewish traders who sell the same goods do them great harm because they sell at a lower price. . . .”⁵³ The Supplication of Augsburg of 1803 told the same story: “The Jews understand how to derive advantages from the general depression of trade. They obtain goods from people who need money badly at shameful prices, and then spoil the market by selling them at a cheaper rate. . . .”⁵⁴ The Court Chancery of Vienna reported on May 12, 1762 that “it is advisable to come to terms with the Jews in reference to contracts for the army . . . seeing that they are prepared to quote lower prices than others.”⁵⁵

Jews were able to undercut the prices of established businesses because for the most part they were not involved in the production of the goods they sold. This was related to another charge which German merchants leveled against Jews, namely, that they sold more than one thing. What eventually gained respectability by the end of the 19th century in the form of department stores, like Macy’s, run by the Strauss family in New York, began under different auspices as largely a front for stolen goods or unredeemed pledges from Jewish pawn shops:

the reason for this tendency to universal trading may be found in that a large number of miscellaneous articles, all forfeited pledges, brought together by mere chance, collect in the shops of Jews, and their sale would naturally interfere with the special business of all manner of dealers. The very existence of these second-hand shops . . . was a menace to the prevailing order of commerce and industry.⁵⁶

Sombart cites a song from Ratisbon from 15th century:

With pledges he held—right many indeed
For Stolen goods and robbers’ plunder
They and the Jews were seldom asunder.
Mantle, hose or damsel’s veil
The Jew he hath them all for sale
To the craftsman, then, there came but few
For all the world dealt with the Jew⁵⁷

During the 19th century, English factories were churning out goods in quantities which would allow them to undercut anyone’s price—hence their support of free trade. Germans as a result viewed England as a predatory economic power and the Jews as agents of English economic subversion:

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"Jewish trade" was a term applied to the commerce in Frankfurt in the 18th century because it was mostly import trade, "which give useful employment to but few German hands and flourishes only by reason of home consumption." And when in the early 19th century Germany was flooded with the cheap products of England, which were sold for the most part at auctions, Jews were held to be the mainstay of this import trade. The Jew almost monopolized the auctions. "Since dealing in manufactured articles is to a great extent in the hands of Jews, the commerce of England is for the most part with them." The Jew had "his shop full of foreign hats, shoes, stockings, leather gloves, lead and copper ware, lacquer work, utensils, ready-made clothing of all sorts—all brought over by English ships." It was the same story in France.⁵⁸

The Jews were supporters of free trade and economic liberalism because in following their business interests, they "gave as little heed to the barriers between states as to those between industries. Still less did they have regard to the prevailing code of etiquette in any industry."⁵⁹ The Jews were also:

the first to stand up for the general principle that it is the right (and the duty) of every trader to carry on his business in such a way as will obtain for him as much for the available custom as possible, or by creating new demands, will increase the circle of buyers.⁶⁰

The Jews were able to sell more than one thing and at a lower price because they "obtained possession of their wares by dishonest means."⁶¹ They trafficked in stolen goods as well as in:

prohibited articles (contraband of war, etc.); in lapsed pledges [from pawn shops]; in goods that had been confiscated (e.g., by customs officials); in goods that had been bought for a mere song from the owners who were deep in debt and whose necessity, therefore, was great or from those who needed money badly; in old goods, bought for next to nothing at auctions; in bankrupt stock; in goods the quality of which was not up to the standards of the ordinances of the industrial code; or, finally, that the Jew cut prices with the intention of going into bankruptcy himself. . . . The commodities sold by the Jews were of an inferior quality. So frequently is this statement met with that its correctness can hardly be doubted. . . . The Traders' Lexicon: Jews sold inferior goods "which they know how to polish up, to colour anew, to show off at their best, to provide with a fresh cover, smell and taste that even the greatest connoisseur is often taken in."⁶²

The Jews could also undercut prices because they had next to no overhead. "Everywhere they sought out sellers or buyers, instead of waiting for them in their shops, as commercial custom prescribed." In fact:

It was a practice with [the Jews] "to pay frequent visits to all and sundry places of public resort where, by reading the many news-sheets, they sought to obtain knowledge of possibilities for doing business and especially of noting what strangers were expected to arrive; and by listing to every conversation, to find out whose houses were in danger in order to make bargains or contracts with them."⁶³

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They did business out of push-carts on the street, which they would often set up in front of the very business whose prices they were undercutting. The Jew, one merchant complained “hires a cart which becomes his moving shop, and often enough he has the bad manners to pull up in front of a shop which sells the same wares as he.”⁶⁴ In 1647 the tailors of Frankfurt demanded that Jews be prohibited from selling new clothing, complaining that

the Jews may freely wander up and down the streets, laden with all manner of goods and cloth, like so many camels and asses, running to meet every new-comer to Frankfurt, be he of high or low degree and offering to sell him what he wants; and so deprive us of our daily bread.⁶⁵

The result of these predatory Jewish business practices is that Jews ruined business for everyone else. In Austria, “the Jews have drawn to themselves all the trade, all the money, all the goods. They wait outside the city, try to strike up an acquaintance with travelers while they are yet on the road, and endeavour to take away their custom from Christian citizens.”⁶⁶

The Jews ruined native industry wherever they were allowed to do business. The silk weavers of Lyons claimed that the Jews ruined the silk industry by producing inferior wares at lower prices, a practice which drove established industries out of business.⁶⁷ The Jews did the same thing to the calico industry in Sweden: “they have completely spoiled this branch of industry because of their low quality goods—the so-called ‘Jews’ calico.”⁶⁸

Summing up, Sombart states that nothing had changed over the entire course of Jewish commerce. The emancipation of the Jews and their access to equal rights as citizens, which took place over a century before Sombart wrote his book, had no effect on Jewish business practices. In fact, “This complaint, which started in the early capitalistic period, has not yet ceased. The cry of the Christian manufacturers that the Jews cut prices has been followed by the corollary that, in order to maintain low prices at all costs, Jews lowered the quality of goods.”⁶⁹

The case can be summed up by a saying that the Jew felt that in business the means justified the end. Cheap prices were an economic weapon, wielded by a people who felt that commerce was a type of warfare to be waged against the goyim. Cheap prices drove the competition to the wall, and when there was no competition anymore, prices would rise to whatever the market would bear, causing even more resentment. The Jews became notorious for creating cheap knock offs which ruined the reputation of established merchants. They also undercut prices by driving down wages.

The German economic system was based on stability and justice, which meant “fixed profits, a fixed livelihood, a fixed production and fixed prices.”⁷⁰ It had stability because it was based on the moral law, which did not change. The correct price for commodities was the just price. Neither

wages nor prices were left to individual whim or the vagaries of the market; rather they came about through consensus and tradition, which was "as subject to religious and ethical principles as everything else in economic life."⁷¹ Price was "based on ethical and not . . . on natural principles," and "Stability was its bulwark and tradition its guide. The individual never lost himself in the noise and whirl of business activity. He still had complete control of himself; he was not yet devoid of that native dignity, which does not make itself cheap for the sake of profit."⁷²

"This," Sombart concludes, "was the world the Jews stormed. At every step they offended against economic principles and the economic order. That seems clear enough from the unanimous complaints of the Christian traders everywhere."⁷³ The Jew

is the born representative the a "liberal" view of life in which there are no living men and women of flesh and blood with distinct personalities, but only citizens with rights and duties. And these do not differ in different nations, but form part of mankind, which is but the sum total or an immense number of amorphous units. . . . Jews . . . deny their obvious characteristics and assert that there is no difference between them and Englishmen or Germans or Frenchmen.⁷⁴

The name of this assault on the Germanic economic system was Capitalism. It was by its nature exploitative, individualistic and internationalist. The Jew "follows business for its own sake" because "he recognizes, in the true capitalistic spirit, the supremacy of gain over all other aims."⁷⁵ The Capitalist system brings about "drab uniformity":⁷⁶

Before there were many relationships between buyer and seller; there is only one now—the commercial. The tendency of capitalism has been to do away with different manners, customs, pretty local and national contrasts and to set up in their stead the dead level of the cosmopolitan town. In short there has been a tendency toward uniformity, and in this capitalism and Liberalism have much in common. Liberalism we have already shown to be a near relative of Judaism, and so we have the kindred trio of Capitalism, Liberalism and Judaism.⁷⁷

"These people have no other god but unrighteous Mammon, and no other aim than to get possession of Christian property . . . they . . . look at everything for their profit." Such is the verdict of the Rev. John Megalopolis, who wrote on March 18, 1655: "No trust should be put in the promises made there (in Brazil) by the Jews, a race faithless and pusilanimous, enemies to the whole world and especially to all Christians, caring not whose house burns so long as they may warm themselves at the coals, who would rather see a hundred thousand Christians perish than suffer the loss of a hundred crowns."⁷⁸

The Reformation eroded the Guild system and made the undermining of the labor economy easier. This enabled the growth of capitalism, i.e., finance and moneylending, which was perceived as modern. The Jews

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were invariably seen as agents of the English because they portrayed themselves as the “champions of the cause of individual liberty. They resisted regulation, supported free trade, free competition, and advanced economic rationalism.”⁷⁹

Modernity, as Yuri Slezkine pointed out recently, is Jewish. Sombart said the same thing 100 years earlier. What once counted as deviant is now viewed as normal, indicating of how much the Jewish economic system has eclipsed its Germanic, Christian rival. “The Jewish outlook,” according to Sombart, became the modern outlook over the course of the 19th century. At every stage of Capitalism’s development, “the Jew was ever present with his creative genius. We may go even further and say that it was due specifically to the Jewish spirit that the characteristics of modern economic life came into being”⁸⁰ What was deviant became normal; the name of the transformation was Capitalism:

The Jewish outlook was the “modern” outlook; the Jew was actuated in his economic activities in the same way as the modern man. Look through the catalogue of “sins” laid at the door of the Jews in the 17th and 18th centuries, and you will find nothing in it that the trader of today does not consider right and proper, nothing that is not taken as a matter of course in every business. Throughout the centuries the Jews championed the cause of individual liberty in economic activities against the dominating views of the time. The individual was not to be hampered by regulations of any sort, neither as to the extent of his production nor as to the strict division between one calling and another: he was to be able to carve out a position for himself at will, and be able to defend it against all comers. He should have the right to push forward at the expense of others, if he were so able; and the weapons in the struggle were to be cleverness, astuteness, artfulness; in economic competition there should be no other consideration but that of overstepping the law; finally all economic activities should be regulated by the individual alone in the way he thinks best to obtain the most efficient results. In other words, the idea of free-trade and of free competition was here to the fore; the idea of economic rationalism; infusing the modern spirit into all economic life. . . . All these activities are summed up in the word “capitalism.”⁸¹

Nothing enabled this development more than the French Revolution’s emancipation of the Jews. And nothing illustrates the rise of Jewish Capitalism better than the story of the Rothschilds and their emergence from Frankfurt’s *Judengasse* at the beginning of the 19th century. This is so because capitalism is at root state-sponsored usury, or as Sombart puts it: “modern capitalism is the child of moneylending.”⁸²

The Jews were not traders; they were moneylenders. From the earliest times, money-lending was a prime factor in the economic history of the Jews. Money-lending lies at the root of capitalism because:

In money-lending all conception of quality vanishes and only the quantitative aspect matters. In money-lending the contract becomes the principal element of business; the agreement about the *quid pro quo*, the promise for the future,

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the notion of delivery are its component parts. In money-lending there is no thought for producing only for one's needs. In money-lending there is nothing corporeal (i.e., technical), the whole is a purely intellectual act. In money-lending economic activity as such has no meaning; it is no longer a question of exercising body or mind; it is all a question of success. Success, therefore, is the only thing that has a meaning. In money-lending the possibility is for the first time illustrated that you can earn without sweating; that you can get others to work for you without recourse to force.⁸³

Jewish capitalism was the antithesis of the Germanic system because it was based on the premise that wealth can be created without labor. The Jew believes that "you can earn without sweating."⁸⁴ Whereas the Christian dismisses usury as "the breed of barren metal," as Antonio puts it in *The Merchant of Venice*. Even a thoroughly deracinated Christian like Adam Smith had retained enough of his patrimony to understand that:

The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. . . . Labor was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labor that all the wealth of the world was originally purchased; and its value, to those who possess it and who want to exchange it for some new productions, is precisely equal to the quantity of labor which it can enable them to purchase or command.⁸⁵

Emancipation made Mayer Amschel Rothschild a rich man. The rise of the House of Rothschild was synonymous with the rise of Jewish influence on the stock exchange. Before the era of the Rothschilds, governments made use of Jewish money-lenders. By the time the Rothschild era had run its course, Jewish money-lenders like the Rothschilds made use of governments. "It was no exaggeration," Sombart writes, "to assert that in many a land the minister of finance who could not come to an agreement with this firm might as well close the doors of his exchequer. 'There is only one power in Europe,' was a dictum well-known about the middle of the 19th century, 'and that is Rothschild.'"⁸⁶

Before the French Revolution set them free, Jews were looked upon as "strangers," as "semi-citizens."⁸⁷ Emancipation ostensibly turned all Jews into citizens, but in reality it turned all citizens into Jews. Now everyone looked upon his fellow-countrymen as "strangers," or *goyim*, to be exploited financially. In emancipating the Jews, the French Revolution emancipated money-lending. The emancipation of money-lending was synonymous with the rise of Capitalism. Both were Jewish. Since Jews in general and the House of Rothschild in particular were an international group who had no real allegiance to any country in which they resided, their emancipation

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turned the stock market into an international operation, which grew exponentially, not only because of the compound interest involved in money lending, but also because the possible circle of investors was increased just as dramatically. The House of Rothschild established conditions:

whereby a foreign loan might be treated as though it were an internal loan, and gradually the public became accustomed to investing their capital in foreign securities, seeing that the interest could be paid at home in coins of the realm. . . . the Paris house pays the dividends on the Austrian Metalliques, the Neapolitan Rents, the Anglo-Neapolitan Loan either in London, Naples or Paris.⁸⁸

Viewed historically, Napoleon's emancipation of the Jews was only the culmination of an historical evolution in the German speaking principalities, where the court agent, commonly known as the *Hofjude*, had become an indispensable part of every prince's finance ministry. According to Graetz, the status of the "court Jew" was introduced by the emperors of Germany during the Thirty Years War.⁸⁹

In September 1769, Mayer Amschel Rothschild was appointed *Hofjude* to the court of Hesse-Kassel. One year later, when he was 26 years old he married Gutle Schnapper, daughter of Wolf Solomon Schnapper, who was *Hofjude*, i.e., money lender, to the Prince of Saxe-Meiningen and received a dowry of 2,400 gulden.⁹⁰ By 1790 Prince William of Hesse-Kassel and Goethe's patron the Duke of Weimar could be counted among Mayer Amschel's regular customers. Rothschild's fortune began to grow exponentially; during the decade of the 1790s, he went from being a prosperous antique dealer to one of the richest Jews in Frankfurt. Mayer Amschel achieved this status through political connections, specifically through his relationship with Karl Friedrich Buderus, which began in 1794 when the Prince at Buderus's bidding allowed Rothschild to become part of a consortium bidding for a sale of 150,000 pounds of English bills.⁹¹

Revolution not only emancipated the Rothschilds, it gave them their biggest financial opportunities as well because war and revolution created "undreamed of business opportunities" for the bold and innovative newcomer.⁹² Barring things like English piracy on the Spanish main, there is only one other explanation for such an exponential growth of wealth of this magnitude, and that is compound interest, or usurious lending. By 1800, the Rothschilds "had become one of the 11 richest families in the Judengasse," via "money-changing and all kinds of lending."⁹³ By 1800, the Rothschild family enterprise "was turning over so much money that Rothschild himself could not keep track of it; bags of money were lying around the office, as he himself told the court, some in the cupboard, some on the floor."⁹⁴

And so the Rothschild legend came into existence, first in the *Judengasse*, then in Germany, then in Europe and finally throughout the western

world. Multiplication of money on this scale could only be brought about by magic. The logic behind this statement found its first expression in the legend of the "Hebrew talisman,"⁹⁵ a legend born out of the ancestral Jewish hatred of the Logos. According to that legend, a young Jew was so obsessed with hatred of Christ and his followers that he "cursed the Nazarenes and prayed in fervent tones that he might have the power to crush them, and vowed by the ineffable name of Jehovah to lose no opportunity of despoiling their wealth and trampling down, yea, utterly bruising, their black and unsparing and unbelieving hearts." The young Jew's hatred of Christ was so fervent that he attracted the attention of the man who owned the talisman, who declared:

Here . . . was a servant fit for the great master—hear a champion fit for the great cause. His wrongs . . . would make him faithful and very zealous foeman of the nazarene of what ever nation. Here was, at length, the man, the long hoped for, the long sought, who should build up the temple of he Lord and make Israel and Judah feared and obeyed in all the quarters of the earth.⁹⁶

The "Hebrew talisman" was then given to this "zealous hater of the Nazarenes" because he was "a champion to avenge the wrongs of Israel," who was "exceedingly desirous of working for . . . the degradation and destruction" of Christians. The message of the legend of the Hebrew talisman is clear: The Jews view wealth as a weapon whereby they can gain the upper hand over the followers of Christ and bring about their ruin. The talisman, as the narrator of the tale makes clear, allows the Jew "to war upon ye in your vulnerable quarter—accursed and detested Nazarenes."⁹⁷

We have here a substantiation of Sombart's thesis and a vindication of all of the rules limiting Jewish participation in the economy which were swept away by Napoleon's imposition of Jewish emancipation on the *Juden-gasse*. The author of the tale must have had the *Judengasse* in mind because its narrator continues by telling us that:

the young Israelite to whom I thus committed the Talisman . . . was Nathan Meyer [sic] Rothschild. [He] waxed wealthy, more wealthy than any who had gone before him, his riches astonished the gentiles and very justly they said, such amazing wealth could not be amassed by one man, in so short a time by any human agency—they were right, it was the agency of the talisman.⁹⁸

Ferguson dismisses the legend of the Hebrew talisman as a "bizarre fantasy,"⁹⁹ but there is more truth to it than he cares to admit. Since there was no "Nathan Meyer Rothschild," the legendary figure who received the Jewish talisman was most probably a conflation of Mayer Amschel and his even wealthier son Nathan, who made his fortune in London by provisioning the enemies of Napoleon, the man who emancipated him and his father and made their rise to wealth and power possible.

Since Goethe was only 20 years old when Mayer Amschel became

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Hofjude to the court of Hesse-Kassel, it is unlikely that he heard the legend when he was a frequent visitor to the *Judengasse*, where the Jews often invited him into their homes. But during the 1790s when *Faust* was germinating in his mind, and when Mayer Amschel was a money lender to his patron, Goethe could not have been unaware of Rothschild's riches and the inexplicable rapidity with which they had accumulated. There was only one explanation for the exponential increase in Rothschild wealth and that was magic. What Faust and the Hebrew talisman have in common is the inexplicable increase in Jewish money that the rise of the Rothschild family symbolized.

Goethe completed a preliminary version of *Faust*, Part I, in 1806, the year in which Napoleon convoked the Sanhedrin and the year in which Prussia fell to Napoleon at Jena. By the time *Faust* appeared in print two years later in 1808, the magical nature of the Rothschilds rise to wealth was common knowledge and certainly known to someone who had grown up in Frankfurt and who had frequented the *Judengasse* as a youth, and whose patron in Weimar was one of Rothschild's debtors. Rothschild family legend has always claimed that Goethe had Mayer Amschel in mind as his model for Mephistopheles when he wrote *Faust*.¹⁰⁰

Goethe could have retold the tale of the Hebrew talisman in verse, much as he had done with the story of the sorcerer's apprentice, but it was a sign of his genius as both a poet and a German that he resurrected the 16th century *Faustbuch* as the vehicle for his inquiry into the magical growth of wealth that he had witnessed in the Rothschild family. *Das Faustbuch* was a quintessentially German story. It appeared in the late 16th century during the waning years of the era when German bankers in general and the Fugger family of Augsburg in particular were the undisputed rulers of European finance.

Das Faustbuch also marked the transition between the labor economy of the Middle Ages and the money economy of the Modern era along with all the psychic disruptions and temptations that that transition brought with it. *Das Faustbuch* was an economic allegory about what happens when the state no longer forbids the enforcement of usurious contracts. Faust, the paradigmatic and prototypical modern man, is no longer bound by custom or religion. His new motto is "*pacta sunt servanda*," ("contracts must be honored")¹⁰¹ the ancient law of the usury-ridden Roman Empire that had been banned from the Holy Roman Empire by higher Christian principles but which was making a comeback under the dual aegis of the "Reformation" and the Medici-inspired rebirth of paganism, i.e., magic, which Reuchlin had introduced into the German-speaking world.¹⁰²

Since Goethe was privy counselor in charge of taxes and finance for the duchy of Weimar, it was most likely he who negotiated his patron's

loans with the Rothschilds. If so, then Goethe most probably understood that the source of the Rothschild's fortune was compound interest, and not some magical Hebrew talisman. *Faust* as a result becomes an allegory of the usurious contract. Since Faust is a modern man "who sees his whole happiness in technological progress and the infinite growth of prosperity"¹⁰³ and who "does not believe in the existence of the soul,"¹⁰⁴ he can easily offer up that soul as collateral in exchange for worldly wealth, power, and pleasure. This is precisely analogous to workings of the usurious loan. Faust gets money, which in the modern money economy, allows the immediate gratification of his desires, whether licit or not. Like the man who borrows money at compound interest, Faust gains short-term benefit in exchange for unrepayable debt, which forces him to forfeit his soul. Finance, as George Soros has pointed out, is a modern form of alchemy. The legal transaction at the heart of *Faust* is an example of modern alchemy which "aims to promote the money value of things to the point where all things are transformed into money values."¹⁰⁵

Goethe would spend the rest of his life working out the full economic implications of the Faust legend. His final verdict on the magical (or demonic) nature of the modern economy would appear in the paper money section of *Faust*, Part II, which he worked on until one year before he died and only appeared posthumously in 1832. But his initial verdict appeared in 1808 when the German-speaking world was still reeling from its defeat at the hands of the French.

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Chapter Sixty-Five

Adam Mueller and Germanic Economics

After the defeat of the Prussian army at Jena in 1806, the German nation withdrew from the Enlightenment and began to look for an alternative which was neither modern nor French. They found it in the German Middle Ages. The movement which articulated their feelings after Prussia's defeat at the hands of the French and the yearning it engendered among the German nation came to be known as Romanticism. It found one manifestation in the tales of E. T. A. Hoffman and another in the economic theories of Adam Mueller.

The political version of the Romantic movement began, however, with Fichte's famous *Reden an die deutsche Nation* which were delivered over the fall and spring semesters of 1807-08, when Berlin was under French occupation and the defeat at Jena was still fresh in everyone's mind. Prussia's defeat at the hands of the French put Fichte in a delicate situation. Seven years before he began his series of lectures to the German nation, he had urged Prussia to ally itself with France against England and their predatory economic policies.

In 1806 Fichte was granted his wish, although probably not in the way that he had hoped, when Napoleon defeated the Prussian army at Jena. Now he was faced with the rhetorical challenge of defending what he believed when he wrote the *Closed Commercial State* without coming across as a Quisling, or conversely rallying the conquered Prussians against the French occupation without repudiating his economic beliefs, which were tied to the Abbé Sieyès and the French Revolution.

Fichte managed to sail between Scylla and Charybdis by claiming that the French had changed since he had first made his appeal for a radically anti-English economic program. In 1800 the French Republic was "prepared to serve as what the marquis de Mirabeau had called the 'friend of mankind,'" but because Prussia had failed to take advantage of the revolution during its altruistic phase, a collaboration which might have helped to preserve those principles, France had abandoned its own revolution, and "The republican friend of mankind had itself become an imperial military machine."¹ In order to survive in her contest with England, France had to turn to despotism.² In 1808 Fichte claimed that he knew what was coming when he wrote the *Closed Commercial State* eight years earlier:

Almost a decade ago, before anyone could foresee what has since come to pass, the Germans were counseled to make themselves independent of world trade

and to establish a closed commercial state. This proposal ran contrary to our habits, but particularly to our idolatrous worship of coined metal, and was passionately attacked and pushed aside. . . . May we see at last that, although those swindling theories of international trade and manufacture are fit for the foreigner and part of the arsenal with which he has waged war on us since time immemorial, they have no application for the Germans . . . the unity of the Germans among themselves, their internal self-sufficiency and commercial independence are the second means to their salvation and thereby the salvation of Europe.³

Napoleon, the bearer of revolutionary internationalism, had paradoxically created German nationalism by his conquests. It was an example of the cunning of reason, which Hegel, who watched Napoleon enter Jena, would discuss at length in his philosophy of history. The antidote to "swindling theories of international trade and manufacture" could only be found in "the unity of the Germans among themselves, their internal self-sufficiency and commercial independence are the second means to their salvation and thereby the salvation of Europe." All that Germany lacked at this moment in history was a state to implement this idea.

One year later Adam Mueller brought out another series of lectures under the title *Elemente der Staatskunst* with the same theme. Born in Berlin in 1779, Adam Mueller studied theology there and then jurisprudence and political science in Goettingen. Mueller converted to the Catholic faith in 1805 during his stay in Vienna. In 1806 he moved to Dresden, where he became co-editor, with Heinrich von Kleist, of the journal *Phoebus*.⁴ Mueller was no fan of *The Closed Commercial State*. His review of it was so intemperate, that Gentz, his patron, ordered him to apologize publicly. But the message of both Mueller and Fichte's books was resolutely anti-English and anti-free trade. The economic strength of German lay in the unity of its people and the state, which granted them economic power.

Like Fichte's theories, which he criticized, Mueller's theories were comunitarian and anti-English. He was "a fierce and vigorous critic" of Smith's individualistic conception of economics,⁵ who felt that capitalism was nothing more than the "doctrine of the radical decomposition, dissolution and dismemberment of the state."⁶ Unlike the English who felt that economics could be abstracted from everyday experience, Mueller felt that it had to be integrated into a social context which was unified spiritually and philosophically.⁷ The key to bringing about this integration was the state, which Mueller saw as:

the aggregate of human affairs, their interconnection to form a living whole. It was something absolutely vitalized and spiritual, "the realm of all ideas, for ever in motion"; it was a moral community, which became unified through the surrender of its parts to the world, through love for mankind. Thanks to this mediate relationship of the world (God), the State acquired a cosmic, religious stamp, and likewise universal validity; for thenceforward there was no longer, strictly

speaking, any happiness for the individual considered as a being apart; happiness could only be found in self-surrender, and man could not attain his true self in any other way than through his relationship to the cosmos.⁸

Like the German mind, which had been freed from slavery to British empiricism by Kant's discovery of the synthetic a priori, the German state was not simply a passive mirror of the individuals which composed it; it possessed active, creative powers. The state, in fact, took an inchoate mass of unrelated individuals and turned them into citizens, and it created this unity of mind and heart as a manifestation of cosmic love. Mueller began his treatise on economics by making the most un-English claim imaginable:

I wanted to portray the state as the object of eternal love. I wanted to show that all interest comes from the river of common life, that all individual right and all individual happiness must derive from that common right and happiness. . . . we maintain that the most significant thing about the state is to re-invoke that ancient natural connection between state and religion through sublime art and that this art necessarily must be put to use if we don't want the demise of all present-day half states.⁹

By the time *Elemente der Staatskunst* made its appearance in Berlin, every German economist was familiar with the *Wealth of Nations*. Virtually every German economist, even the anti-English, accepted the premise that labor was the source of value and that the nation was the criterion of wealth. And yet virtually every German economist felt ill-at ease with Smith's Whig-influenced conclusions and felt that it was his job to rescue Smith's genuine economic insights from the philosophical and historical and political influences that had led him astray. Smith talked about the nation, but he didn't understand what the nation really, because whenever he mentioned it was clear that he was referring to Whig interests and not the interests of the nation as a whole. Mueller set out to correct this imbalance by emphasizing that:

The unity, of the living national solidarity is your highest good, for its sake all other goods exist and have their meaning, this concept of the fatherland contextualizes every other good and exalts and maintains them, but it is a jealous idea which tolerates no other earthly good no matter how precious. That's how I would translate the divine law into the language now current in polite circles.¹⁰

The French revolutionaries made the same mistake as the English by claiming that the interests of the state were synonymous with the interests of one class. In Abbé Sieyès' famous pamphlet *What is the Third Estate?*, he answered his own question by claiming that the third estate was "everything, but an everything shackled and oppressed. What would it be without the privileged order? Everything, but an everything free and flourishing. Nothing can succeed without it, everything would be infinitely bet-

ter without the others.”¹¹ Sieyes argued that the nation would be better off without the “dead weight” of the privileged orders which made up the first and second estates of the clergy and the aristocracy respectively.¹² Mueller countered by claiming that in aspiring to be everything the third estate ended up being nothing. “I would like to answer the question of Abbé Sieyès “what is the third estate” by saying in so far as it wants to be the all in all it is nothing.”¹³

According to Mueller’s reading of Adam Smith, problems arise when an economic theory privileges one class over another. This is a sin against unity because the nation needs the first estate, which “is oriented toward heaven,” as much as it needs the second, which is “bound up with the earth,” as much as it needs the third, which “brings about the colorful, rich but evanescent life on the surface of the earth.”¹⁴ As in the body, so in the body politic: “every sickness of the state, as with human beings, is the hegemony of one organ over the others or at the expense of the whole, the organism.”¹⁵ Neither class can do without the other; separated from each other they are nothing, together everything.¹⁶

The net result of the English and French revolutions was the tyranny of one class over the rest of the nation. In both England and France, “the Manufacturer/Entrepreneur stands like an emperor over an absolute third estate machine-like wage employee—and this dead being is called freedom.”¹⁷

Only the German nation possessed in potentia the spiritual resources to counter the eternal enemy of the human spirit which Mueller encapsulates in the term “Rome,” meaning the Roman Empire of antiquity and the pernicious concepts of law and property which Rome embodied then and which Capitalism had revived in Mueller’s day. “We have one enemy,” Mueller wrote, “Rome,”¹⁸ namely, “the object of a great hatred, the absolute earthly attraction of wealth and living a private life, the lack of faith which property, cold reason and dead science have created, the secular Rome, and Rome again.”¹⁹

The antidote to the pagan Roman Empire was the German Catholic Holy Roman Empire because “the political design of Germany went deeper than that of any other state. That was the bitter poison of the great calling, which the old name [i.e., the Roman Empire] indicated and which the future would justify: that of the Holy Roman Empire.”²⁰ The Germans’ discovery of the creative power of the state rescued the Middle Ages “from the contempt in which the commercial men had held them.”²¹ Delivered from the materialism of the Enlightenment, the Germans could now see the spiritual basis of the national economy and understand that “the real achievement of the past three centuries wasn’t science or the discovery of the New World,” but rather that “Christ [was] the only basis for law and the

achievements of the Middle Ages.”²²

The divine nature of the state may have sounded like a return to the outmoded absolutism of the 17th century, but it went deeper than that and had its roots in the Holy Roman Empire, which was less a state than the economic and political implementation of Catholic doctrine. Mueller was trying to resurrect concepts which the Scottish Enlightenment had declared either obsolete or meaningless, since they were abstract and obviously not reducible to “primary” characteristics like “hard” or “blue.” According to Spann, Mueller claimed that:

Life has to be unified spiritually and philosophically; but it has to be unified no less in its economic and political activities. Here we find a sociological conception associated with a historico-universalist one; we see that Mueller directs his gaze toward social life as a whole—in contradistinction to Smith, who abstracts economics to contemplate it in isolation.²³

Spann claims that Mueller:

objected to the glorification of competition as a creative energy in economic life, setting up against it the vitalizing energy of the personal interdependence of all the members of the community, as in the patriarchal family, in the craft guild, and on a landed estate. He strongly condemned the cleavage between capital and labor which was showing itself as the outcome of the new individualist evolution (capitalism), and was tending to range wage-earning workers and “revenue receivers” (capitalists) against one another as to reciprocally hostile classes.²⁴

Spann claims that Mueller was the first outspoken critic of capitalism and that his criticism was “far more effective than that voiced some decades later by Karl Marx.”²⁵ Mueller understood intuitively that, by privileging the interests of his Whig patrons, Smith became the father of class warfare. Karl Marx was, in a sense, only carrying Smith’s principles to their logical conclusion. If the state were really there to serve the interests of one class and if labor were the source of value, then logically the state should serve the interest of the working class, as Marx said.

Mueller delivered his series of lectures ten years before Marx was born, but his condemnation of socialism was implicit in his condemnation of the French Revolution, whose critique of capitalism was “spoiled and lifeless” because it was based on the same mechanistic world view that English capitalism and socialism both shared.²⁶ Both the French revolutionaries and the English capitalists were “seeking life in lifeless possessions.”²⁷ Both French revolutionaries and the English capitalists were proponents of a “dead law,” which “attacked feudalism and craved equality” but ended up with nothing more than “lifeless property”:

That’s why it’s wrong to say that the French Revolution involved the clash of two separate systems. In reality it involved two different notions of property, one from previous ages which was established in reality and another from the cur-

rent generation which was only imaginary.²⁸

The Enlightenment finished what the Reformation began and brought about the triumph of the Roman idea of absolute property, which became at the hands of John Locke one of the essential beliefs of Capitalism:

In their heart of hearts this generation decided that it didn't want to hear anything more about the common idealistic order of being, which had come into being in the middle ages through Tradition, Custom, common usage, law and religion in these various states. The so-called traditional party would have raised no objections if the feudalistic idea of property had been changed into the ordinary unconditional notion of private property, as long as the current distribution of property remained as part of the status quo.²⁹

The differences between the French and the English pale in comparison to the similarities both countries' elites share by their espousal of Enlightenment views. Both groups, even when they are at war with each other:

endorse the absolute deification of and equally absolute and exclusive notion of private property as the one which existed during the time of the Roman empire, as well as the unconditional striving for the increase of pure income, of the *produit net*, because everything which was taught about progress in this century was nothing more than an elegant camouflaging or a euphemism for that mean-spirited economic idea.³⁰

This "strict interpretation of private property destroys the sense of community" that is the essence of the nation because "Each individual would rather content himself with an arithmetic portion and treat others the same way rather than become a spiritual participant in an eternal piece of property."³¹

The Roman attitude toward property which the Enlightened English adopted had a corrupting effect on their understanding of labor. Smith was correct in the value he placed on labor and the nation, but his understanding of both concepts was corrupted by his Whig background and the prejudices it brought with it. The German spirit found the "division and mechanization of labor which Adam Smith prized so highly" repugnant because that same German spirit wanted to "preserve man's personality."³² Mueller rejected Smith's notion of wealth as the aggregate of all material goods and felt that wealth consisted not in possessing things like gold but putting goods into use. As a result, the greatest wealth could be found not in the possession of things but where the forces which retained it by putting it to use were the greatest. That meant that "the national existence in its widest possible scope is the true wealth of a nation."³³

Mueller rejected the Lockean notion of absolute property rights, which he saw as stemming from Roman law, in favor of *usufruct*, which he saw as one of the fundamental principles of Germanic culture as manifested in the Holy Roman Empire during the Middle Ages:

The fundamental law of the Feudal system was that there was only usufruct and not unconditional possession. . . . As a result the exchange of possession for service was in no way seen as unnatural, which is the way the bleak wisdom and economic humanitarianism of our age sees these things, after coming to the deep insight that things are dead, but persons alive.³⁴

The Roman/Protestant/English notion of property had transformed the state from an organism, which is what it was during the German Middle Ages, into a "secular mechanism, whose sad traces can be perceived throughout the Roman law books."³⁵ The triumph of the Lockean notion of absolute property was a throwback to the days of the Roman Empire as well as the "pinnacle of madness"³⁶ in Mueller's day. Mueller's generation of "enlightened" Germans had experienced this "horrible manifestation" in the Enlightenment's "famous victory" over the Church and feudalism,³⁷ which was complete by the end of the 18th century when the Roman mechanism or the Roman death seized control over all legislation. Roman principles were to make everything right again, that Roman concepts, Roman laws, Roman worldviews, and the Roman notion of property had bequeathed.³⁸ Mueller claims that:

The noble feudal concepts had everywhere to give way to the concepts of cash disbursements, secular sovereignty, or force and strict notions of private property; whatever was not subordinated to the calculus and the scales was banned from the notion of the state. When religion was banned from the state, all of the feeling and understanding for the feudal laws had to disappear as well. The Spirit of freedom exposed feudal concepts like mutuality and genuine obedience to ridicule even though they were inseparable from the beginning. The sovereign becomes a legislative and administrative machine; he becomes the top police chief. He is the one who makes it his job to sniff out the universal foe, otherwise known as feudalism, to find this foe, to pursue him and to annihilate him.³⁹

The new sovereign in this instance was the Freemason, whose goal was to the lodge replace the first estate. The Freemasons never achieved their goal; their effect on the economy was purely negative, like the effect of the Reformation, which severed all spiritual communion with previous generations.⁴⁰ The Reformation robbed religion of its public character, of its political and national meaning and turned it into an exclusively private domestic arrangement. That in turn awoke "Rome," which is to say commerce, and the discovery of the Indies, which in turn promoted the isolation of private interests and private property, just as the discovery of the printing press promoted the private education of the spirit, and the individual a-national formation of the heart.⁴¹

Mueller tried to correct Smith's overly individualistic notion of the economy by launching the idea of the "national economy," a science which describes how the "product of all products" or the "intensification" of them all, is the economic community, the national economy. "National econ-

omy" is an improvement over the system Smith articulated because it is based on a clearer understanding of the nation, especially as the source of all value. National power is the thing that transforms credit into money, the thing which makes it visible.⁴² The same is true of production. Individual production only receives value in and through the national product. All individual wealth is sustained by national wealth in the same sense in which all marine life is sustained by the sea. To preserve and develop the national form of demand and to align it with the national form of production is the role of the state. This is only possible through the realization of the ideal of a national life, which is the highest common good of both the worker and the consumer.⁴³ The true national economy is the art of the intermediary. Its job is to bring the national demand in line with national production.

The power to create money, i.e., coinage, is a manifestation of that national power and as such it is significant only insofar as it corresponds to a lively national power or the idea of law and the idea of money, which is to say insofar as the sovereignty of private life is subordinated to the sovereignty of national life. The true national wealth has in it something greater than any coinage system can supply, namely, the feeling of permanence which grows up not in the counting houses but in the middle point of the totality of spiritual and physical social life.⁴⁴ Over the long haul it will become clear that all true value is derived from national power, and that the true profit of each individual is also the profit of the state and all true loss, the loss of the state.⁴⁵

So every individual, in so far as he serves the whole, increases the national power, or the value of the totality or the genuine national wealth, to that extent he receives value and power in return. That is the natural, true and eternal state of affairs.

The German science of "*Volkswirtschaftswissenschaft*" can only be understood properly in a spiritual context that is Catholic because "Everything beautiful and great in our civil constitutions is there thanks to the Christian religion,"⁴⁶ and because only the Catholic Church can provide the unity the state needs to function properly:

The Catholic Church and its articles of faith were the indispensable ligaments connecting one generation with another and one nation with another in the European family of nations. It was precisely this character which the reformers condemned, and it was this view which earned the reformers innumerable friends among the ruling classes and in the commercial towns.⁴⁷

Like Max Weber, who would become famous for expressing the same thesis a century later, Mueller felt that Capitalism and Protestantism were two separate expressions of the same spirit. Both were anti-communitarian; both wanted to limit feudal rights, and both wanted to place the Church within narrower boundaries.⁴⁸ Wherever this spirit has triumphed a ter-

rible revolution emerges which eats away at all of life's bonds.⁴⁹ All of the states which have succumbed to the Protestant/Capitalist/Masonic spirit have sunken into the same degeneration; all of them have deified the individual as opposed to the corporate, and the factual as opposed to the personal; all of them believe that the cause of their unhappiness lies in the institutions which were created by Christian laws.⁵⁰

The paradoxical result of Germany's internalization of the absolute, alien Roman/English Enlightenment view of private property is insecurity. "Aren't our possessions more insecure than ever before?" Mueller asks.

In spite of all of our laws regulating credit, commerce at the current moment is a gamble in a way that it never was at the time of the Hanseatic league, when influence of feudal law was in effect. . . . where is the feeling of communal independence which gives possessions their attraction and life?⁵¹ . . . The strict interpretation of private property has made war easier to wage, but it has made everyone's life as a result less secure.⁵²

Mueller's idea of money derives from his notion that "all property has a double character; it is individual and social."⁵³ Mueller was a significant thinker in the history of economics because he broke with the tradition of moral Newtonianism which lay at the heart of both the British and French Enlightenments:

He was the first to get beyond the mechanistic, quantitative and materialist outlook of his contemporaries. Moreover, he elucidated the nature and working of a paper currency in a way which went to the very heart of the matter, and thus formulated a theory of money which still remains the profoundest ever conceived, despite all the developments of latter-day economic science.⁵⁴ . . . Had Mueller . . . developed in a normal fashion . . . he would unquestionably have become one of the greatest economists of all time.⁵⁵

Mueller shows the effect of German Idealism on his economic theories when he writes that, "Money is an idea."⁵⁶ Since wealth consists in both use and possession, its real existence can only be recognized in use, or in motion. Smith's idea of "exchange value" means that something can mediate between the desires of two persons. The thing which can do this best is what we call money.⁵⁷ Money is a medium of exchange. Money is also a measure of value.⁵⁸ Credit is invisible money which is involved in every transaction.⁵⁹ The state is the ultimate guarantor of credit, a function which it manifests when it issues coins. The fabrication of the coin is an indispensable need for the nation.⁶⁰ The real value of the coin is the value it has in the eyes of the nation and not in the eyes of the merchants.⁶¹ The external impetus which money needs can only come from the inner social life of the people but it can only be realized by the state.

To the extent that it has exchange value it is money; to the extent that it has social value, it is also money.⁶² Gold is the ideal form of money because

it lends itself to exchange or joining together of individuals because of its permanence, through its ability to maintain its form, and because of its transportability, which is a function of its rarity.⁶³ Unfortunately because gold is also an even better store of value, it works at cross purposes with itself when it becomes money. Its ability to store value is so great that the possessor of the gold loses sight of it as a medium of exchange and succumbs to the *auri sacri fames* which is part of human nature and withdraws it from circulation and hoards it instead of using it to unite himself with his fellow creatures in economic exchange. The result is that gold ends up being anti-money, and this wrecks the economy, especially when compounded by widespread usury, which isolates gold even further by concentrating it into fewer and fewer hands. The main thing thwarting the emergence of a national economy, according to Mueller was "a fixed notion of money."⁶⁴

So if money is an idea, the content of that idea is, in Mueller's terms, "foed" or covenant. Money is the common property of the nation, but it is only really money "at the moment of exchange or at the moment of the circulation of the substances of money" because at this moment "they have become foed, that is to say, feudal, public, and no longer private property. . . . Money is a quality inherent in all the individuals of civil society, a quality in virtue of which they . . . can enter into ties with all the other individuals of that society, and then disrupt those ties once more."⁶⁵

The state has played a crucial role in the creation of money ever since King Gyges stamped his impression on the first coin in Lydia. Everyone but the most doctrinaire libertarian recognizes the role which the state has played in the creation of money.⁶⁶ With Fichte's revival of the creative role of the state, the role of the state in the creation of money became even more important, so important in fact that the intrinsic worth of the coin became practically insignificant. There was always an element of fiat in any currency, even in the creation of the purest of gold coins like the florin. The recognition of the value which the state imparts to the precious metals which it turns into coins generally goes by the name of seignorage. Once the power of the state was resurrected from the dogmatic slumber into which it had fallen under the reign of empiricism, the state's hegemony over money was bound to increase as well, and it was also bound to change the Germans' understanding of money.

Paper money went hand in hand with the rise of the modern German state. Mueller claimed that the first step toward creating a national economy involved the demystification of money as metal by showing that money was an idea. The more the state manifests this idea of money, the more it can produce,⁶⁷ and the more it produces, the more it binds its citizens together. Since money "is one of the primary needs of economic life," and since "money is the economic expression of that inner spiritual unity of the

many which is conformable to the nature of man," and since metal money . . . has proven itself to be more and more inadequate for higher economic life,⁶⁸ the solution to all of Germany's economic problems is paper money because "paper money binds the people more closely to their sovereign."⁶⁹ By issuing paper money, the national economy now has the opportunity to regain the powers of soul which have been absent for so long because of the imposition of an alien English ideology of private property. The solution to the problem of England is paper money because it binds the citizens more closely together. Paper money provides a sure vehicle for national unity because:

the only way the monetary system can be improved is through the strengthening of the national existence, and that can only be strengthened by the widest possible promotion of internal trade, because this increased commerce brings about that which money guarantees namely, mutual trust, the basis of the monetary system. Trust in national solidarity.⁷⁰

In discovering national solidarity, Germany had found the solution to the problem of England. Smith's system had failed because it tried to look at factors like production and money, independently of national domestic existence. As a result it was doomed as a system, no matter how broad or deep or important its insight, precisely because it was a system composed of isolated concepts or dead forms because it conceived of the wealth of the state as a closed off system of graspable commodities. Mueller felt that a system like this was doomed to fail, and that in fact that failure was happening before their eyes, as the attacks of Lords Lauderdale and Brougham had made clear.⁷¹

Paper money was the solution to the English problem because it created solidarity among the nation's citizens. The circulation of paper money would convince the citizens that their well being was bound up with the well being of the state. The statesman who knows how to implement this plan will not conquer England, because that would be unnecessary, but he will keep it within manageable bounds and remove England's influence from his own people. The problem of England is clear:

If you were to ask one of the universal economists of this era what is the cause of the omnipotence and invincibility of British industry, they would say because the English can beat the price of any continental factory because their machinery and the division of labor there are so far in advance that they can produce the greatest amount of goods with the least expense. Beyond that Britain's commercial capital and their markets are so large that they can get by with the smallest profits [advantage]. This is a simple explanation that any child could understand, but whether its sufficient is another question.⁷²

As England's market share grows on the Continent, so also grows the so-called Anglomania, including English customs and the English

language, as well as the British constitution. Mueller defines the problem which Fichte had articulated in his utopian *Closed Commercial State* in a more precise fashion. Instead of saying:

if you want to hold onto you money, clothe yourself in native manufactures, and not in imperial patriotism, as Fichte said in his closed commercial society "this naked longing for imported products is insane, as insane as if an oak were to ask why am I not a palm tree?"⁷³

Mueller claims that the only cure for the English problem is national solidarity. Teach the German "to be proud and to honor their covenant more than isolated possessions, and in this manner you will have not so much conquered Great Britain as made her irrelevant. You will have diverted commerce into new channels, and all meanness of Life will be eschewed in favor of the whole, which will also be more solicitous for the good of the individual."⁷⁴ It is good to understand the economics of Adam Smith and the laws of world commerce, but only in order to define their true boundaries, in order to know how to deal with world trade, and how to subordinate it to higher national purposes.⁷⁵

Social solidarity is the cure for predatory English economic practices. Mueller claimed that the "gist of all my considerations"⁷⁶ was that "only religion can give back to the states their spiritual life."⁷⁷ He also felt that every heart was then longing to "hasten the coming of the new, great national bourgeois and Christian era."⁷⁸ The paradoxical result of the French conquest of the Holy Roman Empire is that it created the communal consciousness that was necessary for the creation of the German nation. Unfortunately, it also emancipated the Jews, creating a fifth column that would ally itself with England and international commerce, thus undermining everything that the Romantic School of German economics wanted to achieve.

Endnotes

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3 Nakhimovsky, p. 169.

4 Othmar Spann, *The History of Economics* (New York: W.W. Norton & Company, Inc., 1930), p. 158.

5 Spann, p. 160.

6 Ibid.

7 Spann, p. 161.

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9 Adam Mueller, *Die Elemente der Staatskunst* (Berlin: bei J. D. Sander, 1809),

- p. 6. All translations from *Elemente der Staatskunst* are mine.
- 10 Mueller, p. 15.
- 11 Emmanuel Joseph Sieyes, "What is the Third Estate," *Fordham University Modern History Sourcebook*, August 1997, <http://www.fordham.edu/halsall/mod/sieyes.asp>
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- 25 Ibid.
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- 31 Mueller, p. 77.
- 32 Spann, p. 162.
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- 34 Mueller, pp. 79-80.
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- 39 Mueller, pp. 97-8.
- 40 Mueller, p. 110.
- 41 Ibid.
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- 43 Mueller, p. 242.
- 44 Mueller, p. 344.
- 45 Mueller, pp. 214-5.
- 46 Mueller, p. 112.
- 47 Mueller, p. 115.

Barren Metal

- 48 Mueller, p. 120.
- 49 Mueller, p. 122.
- 50 Mueller, p. 123.
- 51 Mueller, pp. 83-4.
- 52 Mueller, p. 91.
- 53 Mueller, p. 188.
- 54 Spann, p. 167.
- 55 Ibid.
- 56 Mueller, p. 194.
- 57 Mueller, p. 193.
- 58 Mueller, p. 272.
- 59 Mueller, p. 277.
- 60 Mueller, p. 310.
- 61 Mueller, p. 290.
- 62 Mueller, p. 194.
- 63 Mueller, p. 195.
- 64 Mueller, p. 194.
- 65 Spann, p. 164.
- 66 In his book on money, Murray Rothbard never once mentions the state's role in the creation of the coin.
- 67 Mueller, p. 198.
- 68 Mueller, p. 206.
- 69 Mueller, p. 340.
- 70 Mueller, p. 338.
- 71 Mueller, p. 201.
- 72 Mueller, p. 236-7.
- 73 Mueller, p. 239.
- 74 Mueller, p. 324.
- 75 Mueller, p. 326.
- 76 Mueller, p. 161.
- 77 Mueller, p. 160.
- 78 Mueller, p. 124.

Chapter Sixty-Six

Paper Money in Goethe's Faust

Goethe was intimately involved in the discussions of economic theory which followed the French conquest and occupation of the Holy Roman Empire. His interest in economics was far from dilettantish. As privy councillor at the court of Weimar, he had to deal with economic affairs, in particular "questions of tax and finance" on a regular basis.¹ Wilhelm Roepke claimed that, "Goethe repeatedly showed the liveliest concern precisely for economic and social questions and in a way that makes him thoroughly modern."² Economics played a significant role in his life as a man of letters as well: "Goethe had been introduced to physiocracy by his friend Johann Georg Schlosser, who later married his sister Cornelia. In 1822 the two friends, together with Johann Heinrich Merck, edited the *Frankfurter Gelehrten Anzeiger*, which reviewed the latest literature, including physiocratic writings."³

Goethe was most probably interested in physiocracy because of the 20 years he had spent trying to get the silver mines at Ilmenau up and running. Like the Fugger family from the first golden era of German finance, Goethe began public life as a mercantilist who felt that the simplest way to increase the money supply was to dig it out of the ground. His failure to get a return on the court's investment in the mines led him to question the hard money principles behind Colbert's mercantilism, and that made him receptive to the ideas of physiocracy.⁴

Physiocracy, in turn, led Goethe to the writings of Adam Smith, which he discovered through the writings of Herder and, most notably, Georg Sartorius, Adam Smith's chief acolyte in Germany.⁵ Goethe was godfather to Sartorius's second son, the noted geologist Wolfgang Sartorius von Waltershausen. Sartorius translated *Wealth of Nations* into German and was an ardent champion of English economics in the debates which led up to Napoleon's conquest of Prussia, a position which would have put him at odds with Fichte and Struensee. But like most Germans, Sartorius had misgivings about the metaphysical underpinnings of *Wealth of Nations*. In particular, both Sartorius and Goethe rejected the metaphysically untenable notion of the "invisible hand" and the claim that social harmony can result from anti-social behavior. Both saw that "if each person seeks merely his own advantage, then the whole cannot prosper."⁶ Goethe's unhappy experiences at the silver mines at Ilmenau piqued his interest in the English experiment in the continuous issue of bank notes. The story of paper money

in England was told in Henry Thornton's book *The Paper Credits of Great Britain*. Thornton's book appeared in 1802 and was translated into German by Ludwig Heinrich von Jakob. Sartorius reviewed the German translation, and Goethe revised the review, which appeared in three installments in the *Jenaischen Allgemeinen Literaturzeitung* in 1804.⁷

Thornton's book received this sort of attention because all of Europe's educated classes had become fascinated by the concept of paper money. In spite of being considered a rogue and a failure during his life-time, John Law had grown in stature after death to the point where he had achieved legendary status by the beginning of the 19th century. Virtually everyone engaged in the economic debate in Germany, from Sieyes and the French school to Gentz and Sartorius as representatives of the English school, acclaimed John Law as the unacknowledged genius of his age. Virtually every economic thinker now acknowledged that it wasn't necessary to dig precious metals out of the ground (or steal them) to increase the nation's money supply. Paper money accomplished that feat all by itself. The main problem was managing the issue of paper money, and it seemed that the English had succeeded where Law had failed.

Thornton argued that increasing the money supply did not necessarily lead to inflation. It could lead to an increase in the supply of goods if the credit were actualized, i.e., if the money were transformed into real products.⁸ Binswanger claims that:

paper money will only acquire a gold-equivalent value once it has "materialized": once it has been employed productively; once it has been invested for profit or interest; once that is, it has given its money or gold value to the material engendering the production process; once, in other words, the alchemical process of money creation extends to the whole economy, and the economy expands or grows in accordance with the principle of money creation—that is when the creation of money becomes the creations of value.⁹

Capital becomes the "true philosopher's stone" because

through the injection of money capital via money creation, the seizure of property in nature, and the formation of real capital, a creation out of nothing—that is, out of valueless nature—becomes possible, a production of values which cannot be explained through human effort—a production, in other words, of surplus values.¹⁰

Binswanger's account of Goethe's economics is incoherent on its own terms in a way that Goethe's theories in *Faust* are not. Binswanger is correct in saying that John Law was the model Goethe had in mind when he wrote the paper money section of *Faust II*.¹¹ Binswanger is correct in seeing that paper money is essentially credit. Credit can become wealth if it is used properly, but as Law found out, there is only one proper use of credit, i.e., there is only one use that will turn credit into wealth, and that is the

application of labor. Binswanger claims that "Law's experiment failed . . . in 1720, mainly because he wanted to rush through his project for dispensing with the gold guarantee,"¹² but this is not true. If Law had been able to send enough industrious Frenchmen to Louisiana so that they could have turned the wilderness into productive farms, the Mississippi bubble would not have burst. Labor is the true philosopher's stone because it is the only thing that can change creation into wealth. Credit does nothing more than enable the application of labor. Binswanger claims that:

The philosopher's stone of the economy is . . . money capital, through which all the consumable material in the world can be transformed into money, that is, sold for a profit. The economy's reality is timeless, for the money—the equivalent value of what is sold—is used but not consumed. Because time does not erode it, man gains the possibility of carrying the consumable material over into the future and of constantly increasing it in the form of nonconsumable money. . . . The magic of the economy has come to predominate, driving art back and drawing science increasingly under its spell.¹³

But the real issue is the concept of the philosopher's stone itself. Alchemy claims that wealth can be achieved without labor. Magic blurs the distinction between labor and capital, and it is a testimony to Goethe's literary genius that he put magic at the center of a drama which begins with a pact with the devil and ends with the creation of money. The fact that Goethe placed magic at the center of *Faust* was a sign of his ambivalence and, by extension, the ambivalence of the German nation at the time he wrote his play. Goethe was familiar with Smith's claim that the value of anything was the labor that went into the getting of it. He also understood that the essence of the German economic system which had been handed down from the time of the Benedictines was the value it placed on labor. Yet he was also familiar with the rise of the Rothschilds from the noisy *Judengasse* to the pinnacle of European finance. He knew how they achieved their wealth, and he knew that it wasn't by the sweat of their brow.

From the time of Roger Bacon to the Medicis to John Dee to Isaac Newton to George Soros in the present, alchemy has exerted its unique attraction over the mind of man who is interested in getting out from under the necessity of labor as the road to wealth. Newton was an alchemist. The same regent that brought John Law to France had already hired alchemists to produce gold by magic. Law was hired not because of his undeniable financial genius because he was perceived as a more successful alchemist than his predecessors.¹⁴ The only thing that had changed over this entire period was the medium in which alchemy operated. Once precious metals ceased to be the medium of exchange, alchemy moved from chemistry to finance. The modern economy is the continuation of alchemy by other means. Alchemy raises man to the status of a demiurge¹⁵ by granting him

supernatural powers. Like God, he can create something out of nothing. In this instance, that something is money.

To say, however, that labor is the true philosopher's stone is a contradiction in terms, because the whole point of the philosopher's stone is to eliminate labor from the human condition. Labor is by its nature difficult, an idea which finds theological expression in the curse of Adam, which is to say the difficulties associated with labor in a fallen world.

Goethe is aesthetically correct in associating paper money with magic because that is certainly how it was perceived in his day, something that Sombart notes when he writes: "The concept of paper money was still surrounded by the magic of the romantic era; the princes saw it as a new kind of money machine; and at this time no one had discerned the inner law of how it worked; it was still considered the work of the devil or magic, as becomes clear in the Kaiser scenes from *Faust*."¹⁶

Goethe began work on *Faust* in the 1770s and he would continue working on it for the rest of his life, *Faust*, part II, appearing posthumously in the year after his death in 1831. *Faust*, part I, appeared in 1808, during a time of great soul-searching in Germany. It appeared during the same year when Fichte gave the lectures that were eventually published as *Reden an die Deutsche Nation* and when Mueller gave the lectures that would eventually be published as *Die Elemente der Staatskunst*.

Both Goethe and Mueller were concerned about the centuries' long transformation of the German economy which had begun around the time when *Das Faustbuch* had been published during the 16th century when the feudal labor economy began to be replaced by the modern money economy. Before the Reformation, the personal reputation of the feudal lord sufficed as the basis of the economy. After the Reformation the lord needed gold to maintain his reputation.¹⁷ Mueller saw the modern era in essentially Faustian terms:

The [modern] world was oriented toward the possession of things. As a result, it was eager to acquire gold, and when the Indies couldn't still this ravenous hunger, man in his hubris attempted to create gold artificially in a crucible, a swindle that the best minds in Europe understood.¹⁸

Every ruler was intoxicated by the *auri sacri fames*. Commerce ruled the world, and it was Colbert, the French finance minister, who articulated the economics of metal money best.¹⁹ Science came into being during the age of metal money, and it was as a result fatally tainted from the moment of its birth. Similarly, the science of economics became "the science of metal money,"²⁰ which meant that it failed to "take into account the economic meaning of the person." John Law changed all that when he created paper money in France. In doing that he "attained a new understanding of money," that was now being refined by the Germans, who had read Adam

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Smith, and who had derived much understanding from the experience, but who felt that his answers were nonetheless inadequate. "It is clear," Mueller wrote:

that the science of economics, in spite of all of the acuity and experience which its inestimable author, Adam Smith, possessed was oriented in a direction that was un-national and fundamentally impractical or that individual elements or rules would get implemented in a way that would work to the great disadvantage of the actual state which implemented them.²¹

The true national economy doesn't privilege one class—e.g., *le tiers état* or Whig merchants—over the entire economy. Instead it integrates and unifies the three economies which correspond to the three classes of society—nobility, clergy, merchant classes—which brings about "the conservation, consolidation, and capitalization, and ultimately the unification of the product with the spirit of conservation, which presents itself in the land and soil, with the idea, with that life of the bourgeois and human whole, into one unified thing."²²

Mueller felt that the German adulation of Adam Smith had prevented this unification of the German economy. Now that Kant had released the German nation from the spell of empiricism, national consolidation would liberate national credit, which is "the capacity of a government in time of need to concentrate national capital and to realize it with this purpose in mind."²³ By extending credit to its own citizens in the form of paper money, the state could "concentrate maximal power"²⁴ to bring about the common good.

Much of the economic soul-searching that thinkers like Mueller and Fichte and Goethe would engage in was prompted by current events. When the Austrian government suddenly found itself insolvent at the beginning of the 19th century, it concluded that the only way to pay off its debts was by issuing paper money.²⁵ The fact that a government could now rescue itself from the perennially intractable problem of sovereign debt, a problem which even someone writing as recently as Adam Smith had concluded was insoluble, led Goethe to believe that some sort of powerful magic was at work here and that man had finally discovered the philosopher's stone.

Faust was an alchemist who achieved the real goal of alchemy by the creation of paper money. Sombart claims that the history of paper money in the early capitalist period is characterized by: "1) the inability of the state to come to grips with this dangerous new tool; 2) the deep suspicion in which the public held this form of money, that only really subsided in the 18th century. . . ."²⁶ Magic covers all of these bases. The fool at the emperor's court articulates the misgivings Sombart listed when he exclaims: "*Die Zauberblaetter! Ich verstehe nich recht.*" "It is no coincidence," Binswanger tells us, "that Faust begins his economic plan in the second part of the play

with the act of money creation. It gives him the magic key, the master key that grants access to all the treasures of the world. . . . *‘Durch euch erlang ich ihn, den grossen Dietrich: Geld!’*²⁷

Faust, Part II, begins with the financial troubles that had become endemic throughout Europe in the wake of the triumph of Colbert’s mercantilism. The lust for gold had led the economy to freeze up. The Emperor’s *Schatzmeister* or treasurer complains that the portals of gold have become clogged and although everyone is scratching and hoarding “our treasury is empty.”²⁸ The Marschalk who is responsible for dispersing government funds can’t meet his payroll. He tries to save money by cutting expenses, but the only thing that increases are the pains associated with cutting back on necessary expenses.²⁹ The only solution is to go to the Jew for a loan, but the Jew won’t spare him and eventually the interest payments on his loan will end up eating up all of the money that would otherwise be needed to feed the nation. The Jew takes everything of value as collateral, even to the point of requiring the Marschalk to pawn the pillow on his bed.³⁰ What we need is money, he tells the Kaiser in exasperation. The Kaiser’s solution is simple enough: “We need money: Okay, create it then.” Mephistopheles is only too willing to do the emperor’s bidding:

Ich schaffe was Ihr wollt, und schaffe mehr

*Zwar ist es leicht, doch ist das Leichte schwer.*³¹

Mephistopheles can do the emperor’s bidding because as a modern day alchemist, he has a new trick up his sleeve, namely, paper money. The chancellor warns the Kaiser that he is dealing with infernal powers here:

Der Satan legt euch goldgewirkte Schlingen!

*Es geht nicht zu mit frommen rechten Dingen.*³²

But his warnings get ignored because the new name for alchemy is science. Faust is a scientist, and as such he was fatally associated with a scientific method which was fatally associated with Newton and English Capitalism or if we take the image back to its origin in the 16th century, with John Dee and the Elizabethan regime of Protestant magic and the war they waged on the Catholic Habsburgs. Mephistopheles is also a representative of Mandeville’s Fable of the Bees School. He is part of that power that always does evil but always brings about the good in the end:

Ein Teil von jener Kraft,

*Der stets das Böse will und stets das Gute schafft.*³³

He is, in other words, the personification of the invisible hand which is the myth at the heart of English capitalism. He is also the personification of magic, which claims that happiness is not so much the result of virtue but of amoral techniques, which is to say all of what modernity praises and Mueller hates, from contracts which can specify anything, no matter how immoral, like usury or forfeiting your soul, to Locke’s notion of pri-

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vate property, to modern finance which claims to have discovered the real philosopher's stone in credit and paper money. Credit is the new alchemy:

the attempts to produce artificial gold were abandoned not because they were futile, but because alchemy in another form has proved so successful that the arduous production of gold in the laboratory is no longer necessary. It is not vital to alchemy's aim, in the sense of increasing wealth, that lead be actually transmuted into gold. It will suffice if a substance of no value is transformed into one of value: paper, for example, into money. We can interpret the economic process as alchemy if it is possible to arrive at money without having earned it through corresponding effort: if the economy is a top hat, so to speak, which yields a previously non-existent rabbit: in other words, if a genuine value creation is possible which is not bound by any limits and is therefore in this sense, sorcery or magic.³⁴

Goethe disagreed with Smith, but unlike Fichte and Mueller and Sartorius, who took issue with the ideological and metaphysical underpinnings of *Wealth of Nations*, Goethe's *Faust* took issue with Smith's central assertion, namely, the claim that wealth is achieved through work alone. Unlike Smith, who felt that

The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it What is bought with money or with goods is purchased by labor as much as what we acquire by the toil of our own body. . . . Labor was the first price, the original purchase money that was paid for all things. It was no by gold or silver, but by labor, that all the wealth of the world was originally purchased.

Faust felt that the need for labor had been obviated by magic, in particular the new magic of credit or paper money:

The second part of *Faust* . . . contains the explicit claim that wealth has its source not only in work, the importance of which cannot be denied, but also in magic—a magic that creates surplus values which cannot be explained through human effort.³⁵

Wealth now comes about through a combination of gold, buried safely in the emperor's vaults, and the magic power of the emperor's signature: "The covering of the notes with this buried resource . . . is completed through state legitimization in the person of the emperor . . . all treasure—even treasure from this imaginary gold source—becomes reality once backed by the Emperor's authority."³⁶

The emperor then demands that Pluto, the god of wealth, appear before him. When he arrives at the palace, Pluto announces that he used to be called Avarice but things have changed. Surveying the land and seeing that it is loaded down with debt, Pluto announces that the time has come to unleash the kingdom's riches.³⁷ When he signs the decree creating paper money, the Kaiser has the feeling that he has become Pluto himself³⁸ because money is now flowing again throughout the land. The head of the

army claims that with one shot the soldiers have been paid and signed up for a new tour of duty. Fresh blood is flowing through the economy and the tavern owner and the prostitutes who hang out at his tavern are now doing splendidly. All woe has been turned into well-being. All because everyone can now say, "this piece of paper is now worth a thousand crowns."³⁹ Paper money has even triumphed over usury. The Marschalk has paid off all his bills, and the claws of usury have been appeased.⁴⁰ He feels that he's been released from the pains of hell; in fact, he claims that he wouldn't be happier if he were in heaven. The change in financial situation is so dramatic that the emperor can't believe that he brought it about by his signature alone. He suspects fraud⁴¹ and is only placated when the treasury secretary reminds him that he signed the decree himself the night before.⁴² The creation of money has solved all of the state's problems. There is no longer any reason for the emperor's subjects to torture themselves with investment and carrying bags of money because this little slip of paper is easy to carry around on your person or, more tellingly, in your bosom like a love letter. The priest can even carry money around with veneration in his breviary. Now instead of worrying about marketing and exchange, the emperor's subjects can spend their time falling in love and getting drunk.⁴³

The Marschalk takes a totally amoral view of the whole enterprise.⁴⁴ He doesn't care what it takes to get the economy going as long as he can profit from the results. He fails to see that paper money is nothing but credit, and that if credit is not used wisely, in fact, it cannot lead to the creation of wealth. The one thing that assures that credit will be used wisely is the virtue of prudence, which means that the whole economy hangs by a very slender moral thread. Once the break is made with metal money, the most important factor in the national economy is the moral stature of the state's citizens. The ruler needs prudence in expanding the money supply, and the citizens need trust in the government issuing the money, and prudence in using the credit which the government is extending to them by issuing the money in the name of the sovereign. If the citizenry wastes that credit on lust and drunkenness, the money that the government issued as credit will not find its fulfillment in wealth. If the emperor succumbs to his own lusts, he will squander the economic breakthrough that paper money provides if the credit is invested wisely in actual goods in the economy and end up with nothing but sacrilegious debts.

The court fool suspects magic but admits that his suspicions may be due to lack of proper understanding.⁴⁵ But before long even Mephistopheles is giving some indication that the whole scheme may be too good to be true. When the Kaiser demands that Mephistopheles conjure up a vision of Helen of Troy, he grumbles, "First we made him rich; now we have to entertain him."⁴⁶ The emperor thinks that conjuring Helen of Troy is as simple

as conjuring the ghost of paper money. Paper money is ghostly because it is based on the emperor's willingness to incur sacrilegious new debts.⁴⁷

The emperor who hopes to find everything in Mephistopheles' negation ends up with nothing but debt and the will to power, which is a shorthand description of the modern economy.⁴⁸ Since there is no being in nothing, the only values that reside in the paper money he has created are those projected there by the emperor's will. In the absence of any higher good, the will can only choose girls, money, and gold and the ultimate rule becomes "fortune favors the bold," or as the Emperor puts it: "*dem Greifendem ist meist Fortuna hold*."⁴⁹ Goethe modified the epigram "*Fortis fortuna juvat*" (fortune favors the strong), which appeared in an earlier form in the Aeneid as "*Audentis fortuna juvat*." (fortune favors the daring) by adding the notion of "grasping," a notion particularly appropriate to the Age of Capitalism Goethe was trying to critique.

Similarly, Binswanger gives a totally unrealistic notion of paper money when he calls the Bank of England "a complete success," which "began a march of triumph that would soon conquer the whole world" when "It became the basis for English world power and her domination of world trade."⁵⁰ The Bank of England was far from "a complete success," primarily because it saddled that country with unrepayable debt. The catch that neither the Marschall nor modern commentators mention is that paper money does not solve the usury problem. If paper money is based on debt (and in the final analysis, paper money is debt), the devil gets it all back in the end. As the portrayal of the *Judensau* makes clear, the devil in this instance works closely with the Jew, who is a notorious usurer. The Jew achieved his power through money-lending. Once Napoleon emancipated the Jews, there was no check on the havoc which usury could wreak in the Christian state. The Rothschilds were aware of the predatory nature of their moneylending. "Our late father taught us," Mayer wrote, "that if a high placed person enters into a [financial] relationship with a Jew, he belongs to the Jew."⁵¹

Endnotes

1 Hans Christoph Binswanger, *Money and Magic: A Critique of the Modern Economy in the Light of Goethe's Faust* (Chicago: University of Chicago Press, 1994), pp. 99-100.

2 Binswanger, p. 99.

3 Binswanger, p. 100.

4 Binswanger, p. 102.

5 Binswanger, p. 103.

6 Binswanger, p. 104.

7 Binswanger, p. 113.

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- 8 Binswanger, p. 113.
- 9 Binswanger, p. 18.
- 10 Binswanger, p. 29.
- 11 Binswanger, p. 30.
- 12 Binswanger, p. 31.
- 13 Binswanger, p. 85.
- 14 Binswanger, p. 31.
- 15 Binswanger, p. 34.
- 16 Werner Sombart, *The Jews and Modern Capitalism*, (New Brunswick, NJ: Transaction Books, 1982), p. 427.
- 17 Adam Mueller, *Die Elemente der Staatskunst*, (Berlin: bei J. D. Sander, 1809), p. 208.
- 18 Mueller, p. 208.
- 19 Mueller, p. 211.
- 20 Mueller, p. 220.
- 21 Mueller, p. 223.
- 22 Mueller, p. 225.
- 23 Mueller, p. 357.
- 24 Mueller, p. 362.
- 25 Binswanger, p. 114.
- 26 Sombart, p. 427.
- 27 Binswanger, p. 115.
- 28 Johann Wolfgang von Goethe, *Faust*, edited with Introduction by R-M. S. Heffner, Helmut Rehder, W. F. Twaddell, Volume I (Madison: University of Wisconsin Press, 1975)
- 4849 Die Goldespforten sind verrammelt
ein jeder kratzt und scharrt und sammelt
und unsere Kassen bleiben leer.
- 29 Goethe, *Faust*,
- 4854 Wir wollen alle Tagen sparen
und brauchen alle Tage mehr,
und taeglich waechst neue Pein.
- 30 Goethe, *Faust*,
- 4869 Nun soll ich zahlen, alle lohnem!
Der Jude wird mich nicht verschonen:
Der schafft Antizipationen,
Die Speisen Jahr um Jahr voraus.
Die Schweine kommen nicht zu Fette,
Verpfaendet ist der Pfuehl im Bette,
- 31 Goethe, *Faust*, line 4926.
- 32 Goethe, *Faust*, line 4941.
- 33 Goethe, *Faust*, line 1336.

Paper Money in Goethe's Faust

- 34 Binswanger, p. 9.
- 35 Binswanger, p. 10.
- 36 Binswanger, pp. 14-5.
- 37 Goethe, *Faust*, 36, 5708 Plutus: Nun ist es Zeit, die Schaetze zu entfesseln
- 38 Goethe, *Faust*, 5990 Kaiser: es schien mir fast, als ob ich Pluto waere
- 39 Goethe, *Faust*, 6055, "Zu wissen sei es jedem, der's begehrt:
der Zettel hier ist tausend Kronen wert.
- 40 Goethe, *Faust*, 6040 Rechnung fuer Rechnung ist berichtet,
Die Wucherklauen sind beschwichtigt."
- 41 Goethe, *Faust*, 6055 "ich ahne Frevel, ungeheuren Trug!"
- 42 Goethe, *Faust*, Erinne dich! Hast selbst es unterschrieben,
Erst heute nacht!
- 43 Goethe, *Faust*, 6103 Man braucht nicht erst zu markten und zu tauschen
Kann sich nach Lust in Lieb und Wein berauschen.
- 44 Goethe, *Faust*, 56, 6318, Was ihr fuer Kuenste braucht ist einerlei
Der Kaiser will, dass alles fertig sei.
- 45 Goethe, *Faust*, 6137 "Die Zauberblaetter! Ich verstehe nich recht.
- 46 Goethe, *Faust*, 51, 6183, M: Erst haben wir ihn reich gemacht,
Nun sollen wir ihn amüsieren.
- 47 Goethe, *Faust*, 51, 6187. M: Machst frevelhaft am Ende neue Schulden,
Denkst Helenen so leicht hervorzurufen
Wie das Papiergespenst der Gulden
- 48 Goeth, *Faust*, 53 6255 Wir wollen es ergruenden;
in deinem Nichts hoff' ich das All zu finden.
- 49 Goethe, *Faust*, 85 7103 Man greife nun nach Maedchen, Kronen, Gold;
dem Greifendem ist meist Fortuna hold.
- 50 Binswanger, pp. 31-2.
- 51 Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*,
(New York: Viking, 1998), p. 77.

Chapter Sixty-Seven

• The Hep-Hep Riots of 1819

Mayer Amschel Rothschild was still a nobody when the new landgrave moved north to Kassel on his father's death in 1785. He and his children would have remained run of the mill *Hofjuden* were it not for a series of events which propelled them from the *Judengasse* to the premier position in the world of European high finance. Their response to those events took place in September 1810 when Mayer Amschel, suffering from a rectal abscess and hemorrhoids,¹ the classic malady of usurers, restructured his financial empire by passing it onto his sons and creating "Mayer Amschel Rothschild & Sons." The new firm was one of the first in a long line of multinational corporations because the five sons who were the sole owners had been dispersed by their father to the financial capitals of Europe to take advantage of the restructuring and modernization that Napoleon brought in the wake of the French army and its conquests.

The diversification of the firm fit in well with the cosmopolitan nature of Jewish finance. Amschel took over his father's office in Frankfurt, but Mayer Amschel's other sons ended up in Vienna, Naples, Paris, and, most importantly of all, London, where capital was fleeing two steps ahead of the avant garde of Napoleon's armies. The cosmopolitan nature of Jewish finance found a natural ally in the British Empire, which was ready to exploit the production capacity it had achieved during the Industrial Revolution and promote the doctrine of free trade as normative for all international commerce. The Jewish/English alliance, which had roots going back through the era of Cromwell to the Elizabethan police state under Walsingham, would become the antipode to German economics, which beginning with Fichte's *Geschlossene Handelsstaat* was in the process of becoming resolutely national in its orientation. After Mayer Amschel Rothschild's sons spread out to the major financial centers of Europe:

the multinational structure of their firm enabled them to engage in arbitrage, exploiting price differences between, say, the London and Paris markets. They could also bail each other out in the event of liquidity and solvency squeezes. Never—not even in 1848—did financial crisis strike everywhere in Europe simultaneously and with equal severity. When Britain suffered in 1825, James could bailout Nathan. When Paris collapsed in 1830, Nathan could reciprocate.²

Mayer Amschel fell ill on September 16, 1812 and died three days later, but not before he had established the parameters of the firm he was going to bequeath to his heirs. "I hereby decree and therefore wish," he wrote, "that

my daughters and sons-in-law and their heirs have no share in the capital of the firm, Mayer Amschel Rothschild & sons . . . the said firm shall exclusively belong to and be owned by my sons.”³

Within six months of Mayer Amschel’s death, Nathan was back in London smuggling gold bullion from England to France.⁴ Nathan was a major player in the London City because he had somewhere between 30 and 40 million gulden of Prince William of Hesse-Kassel’s money at his disposal. This was, of course, the money the Prince had given to Nathan’s father for safekeeping. Speculating in the bond market is generally not considered “safekeeping,” but Prince William was out of the picture, and Nathan was not the type of man who would bury his talents, even if they weren’t his. It was “the Elector’s treasure” that:

helped Nathan to make the transition from Manchester merchant to London banker. . . . This was what Carl meant when he said later that “the Old Man”—meaning William—had “made our fortune.” . . . The “masterstroke” which enabled Nathan to leap into the first league of merchant bankers was his use of the Elector of Hesse-Kassel’s English investments to bolster his own resources. In the turmoil of war, . . . Nathan was able to treat the Elector’s bonds like his own capital.⁵

Nathan’s penchant for smuggling and high-stakes speculation soon brought him to the attention of British intelligence. When John Charles Herries was appointed Commissary-in-Chief in October 1811, he approached Nathan to seek his assistance in provisioning troops on the continent. Herries had other more personal concerns as well. He was being blackmailed by Baron Limburger of Germany for fathering an illegitimate child by the baron’s wife.⁶ Nathan relieved Herries’ embarrassment by conveying 15,000 gulden to Baron Limburger and in doing so won for himself the friend in high places which was the essential element in the successful career of any Hofjude. Herries was to Nathan, what Buderus, at the court of Prince William, had been to Nathan’s father. He introduced him to the dealmakers and protected him from prosecution.

Ferguson claims that “it was in this highly volatile context that the Rothschilds made the decisive leap from running two modest firms . . . to running a multinational financial partnership.”⁷ The change was to have more than personal and familial consequences for the Rothschilds. Nathan’s collaboration with Herries as smuggler cum financier cum commissary agent would revolutionize European finance by bringing about fundamental changes in the bond market. Smuggling, which is to say, a subversion of a nation’s borders and therefore its national integrity, became the model for the Rothschilds entry into the bond market, which “The Rothschilds actually created . . . in its modern form.”⁸ Once these changes got institutionalized in the British bond market, international finance be-

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came essentially Jewish and cosmopolitan in its ability to subvert both national borders and undermine national sovereignty by making it a function of Jewish-brokered and oftentimes Jewish-held debt.

The system that the Rothschilds pioneered at the time of the Napoleonic wars "enabled British investors . . . to invest in the debts" of European states which lacked the capital they needed by purchasing "internationally tradeable, fixed-interest bearing (that is, transferable) bonds."⁹ The significance of this system for 19th century history cannot be over-emphasized. "Since most states had sizeable amounts of tradeable debt in circulation," these states could not meet their borrowing needs in local markets. This was especially true of the German principalities, which lacked anything approaching financial economies of scale. That meant that the German princes had to do business with the English, and that meant that the Rothschilds were presented with a golden opportunity by providing instruments that made the bond trade truly international. The reliance of German princes on Jewish/English money markets would have far-reaching consequences because it created a fifth column in the middle of burgeoning German nationalist spirit that was resolutely national in its orientation toward the economy.

In 1813 Nathan offered his financial services to the British government as it struggled to finance Wellington's penultimate campaign against Napoleon. After Napoleon's disastrous invasion of Russia in 1812, the Sixth Coalition defeated the seriously weakened French army at Leipzig in 1813, forcing Napoleon to abdicate and accept exile on the island of Elba. On January 11, 1814, Nathan was officially charged with the task of financing Wellington's advance through France. In March of 1814, Napoleon escaped from Elba to the continent with 1,000 men and, after resurrecting the veterans of 20 years of war on the continent, marched north to crush the Prussian army under Blücher and drive Wellington into the sea.

At this point Nathan began buying up bullion in London, which he then sold to Herries to finance what would end up being the last campaign against Napoleon.¹⁰ In March 1815 Rothschild purchased more bullion and pushed up the price of Austrian bonds. By now the markets were tending to follow the Rothschild lead. As Carl noted, "when we buy, everybody buys."¹¹ Being the first to buy was important because "the success of arbitrage and forward exchange operations hinged on rapid communication."¹² The Rothschilds had a distinct advantage because they were "able to transmit such information through their own couriers considerably faster than was possible through official channels or the regular post."¹³ Ferguson claims that:

it is tempting to see Napoleon's return from Elba on March 1, 1815 as an immense stroke of luck for the Rothschilds. Just as the brothers appeared to be losing the peace, Bonaparte's "Hundred Days" plunged Europe back into war, restoring the

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financial conditions in which the Rothschilds had hitherto thrived. This idea that Nathan profited from the dramatic events of 1815 is central to Rothschild mythology.¹⁴

Napoleon met final defeat at the Battle of Waterloo, just south of Brussels, in June 1815.¹⁵ The still unanswered question about that battle is why Field Marshal Grouchy followed his original orders and not the cannons, the unwritten law of battle. Nesta Webster claims that Nathan played a role in Napoleon's defeat by bribing Grouchy to keep his troops out of the Battle of Waterloo at the moment they were needed the most, thus insuring Wellington's victory.¹⁶

Provisioning Wellington provided Nathan with the greatest financial opportunity of his career because it gave him first access to the news of Wellington's victory and the ability to buy devalued bonds based on that information.¹⁷ From a financial perspective, the real victor at Waterloo was Nathan Rothschild, not the Duke of Wellington, because it enabled him to buy up devalued bonds by obtaining the first news of Napoleon's defeat at Waterloo:

As the prospect of an allied victory neared, so Russian bonds rallied, with the payment of subsidies from Britain strongly implying an imminent resumption of interest payments. It therefore made sense for anyone who anticipated the defeat of France to buy the bonds of states allied to Britain while they were still in the doldrums.¹⁸

Ferguson claims that Nathan's financial maneuvering during the tumultuous years 1814-1815 which ended the Napoleonic era "ushered in a new era in financial as well as political history"¹⁹ by allowing him to lay the foundation for state finance for the 19th century. In the aftermath of the Congress of Vienna, the Rothschilds established a model for international bond issues which would swiftly become standard. Nathan "made them still more attractive by fixing the rate in sterling money, and doing away with all the effects of fluctuations in exchanges."²⁰ It represented "a major step toward the creation of a completely international bond market" and "one of Rothschild's major contributions to modern economic development." Because they financed the debts of the coalition that defeated Napoleon, the Rothschilds came to be thought of as financiers of "reaction" which convoked the Congress of Vienna to ensure that revolution was a thing of the past.

One of the main topics at the Congress of Vienna in 1815 was Jewish emancipation. The Jews wanted to maintain what they had gained under Napoleon, but the Germans, especially the German guilds and Buergers, wanted a return to the status quo ante. The political occasion for the heated discussion of the relationship with the Jews came from the decision of the Congress of Vienna that the Council of the German Federation needed

to introduce a unified code which was binding on all its members. The Jews and their sympathizers were hoping for a positive decision, namely, full civil rights in their domicile states. The opponents of this measure, however, sought to show that such a decision would constitute a violation of the religious and moral principles of the native populations, and an injustice to them and their states.²¹ Germans in general felt that the time had come to limit the rights which the Jews had achieved under Napoleon. An even greater majority felt that it was most certainly not time to expand those rights. Many political commentators at the time of the Congress of Vienna ended their writings with the explicit warning that, if the government didn't take the necessary measures, that *Demos* would take the law into his own hands as had happened in previous generations when the populace had been hurt by usury and other business practices of the Jews.²² Both the pro- and anti-Jewish factions were of one mind about the dangers of the current situation. Jews were bound to encounter violent resistance if they persisted in demanding equal rights. Pro-Semites like Professor Alexander Lips from Erlangen and the Jewish intellectual Salomon Jacob Cohen prophesied in practically the same words: if the antipathy toward the Jews continued, it would result in physical violence.²³

Statesmen like Furst Klemens von Metternich, the architect of the reaction to revolution which flowed from the Congress of Vienna, found themselves caught in the middle of two economic tectonic plates in their efforts to bring about stability in the Germanic principalities in the wake of the Napoleonic Wars. The principle aim of the Holy Alliance was to avert a recurrence of the revolutionary "epidemic" which had caused such upheaval in Europe between 1789 and 1815—if necessary by military intervention.

Yet in implementing these goals, Metternich found himself in a bind. If Metternich supported Jewish emancipation, he ran the danger of provoking a revolutionary movement among the guilds and merchants of the middle class who were suffering from the Jewish subversion of their livelihoods. If, on the other hand, he opposed Jewish emancipation and supported a return to the status quo ante, he ran the risk of alienating powerful Jewish bankers like the Rothschilds, who had become essential instruments of state finance.

The issue got resolved in the interests of the rich and powerful; this meant in the interests of the princes and their agents who wanted to borrow money from the Jews. This wasn't a new situation. In the 15th century, St. John Capistran had preached against the "privileges" of the Jews, by which he meant the favors which princes granted to Jewish moneylenders in exchange for loans at favorable rates of interest. This led the princes to allow more and more Jews into their territories. The Hofjude was followed quickly by his less affluent co-religionists, who quickly set up pawn

shops, which enslaved the poor. The large store of second hand items which were a necessary part of the small loan business inevitably ended up in the push-carts of the less affluent Jews who made their living by peddling, which meant undercutting the prices established by the guilds, which led necessarily to antagonism with the middle class, which left to ferment long enough inevitably led to attacks on the Jews.

History repeated itself on the evening of August 2, 1819 when a number of people from various classes sought out the Jews in the county seat of Wuerzburg and began teasing them by constantly shouting the word "Heb" [sic, Hep]. This shouting continued on into the night.²⁴ At 9:00 PM on the following evening, the mob regrouped in front of the house of the *Hoffude* Jacob Hirsch and threw stones at his house breaking a number of window panes on the second floor.

By 11:00 o'clock, a mob of about 60 to 80 men had assembled in front of Hirsch's house. After they were dispersed by a cavalry patrol, they regrouped in the square in front of the cathedral where they started ripping up cobblestones.²⁵ The unrest got worse as the night wore on. Police officers were beaten and thrown to the ground and a military unit which the police called for help was met with a hail of rocks. Ten of the rioters were arrested, and six of them held in jail.

The mob then attacked the house of Theresie Huegelin, where the Jew Abraham Loeb Brueckner ran a junk shop. After breaking down the door of Brueckner's shop, the mob smashed the store windows, as well as the windows on the second floor of the building. During the rioting, one of the protesters insulted the royal city commissioner by shouting "Hep-Hep" in his face, and then laughing shouted tauntingly "arrest me."²⁶

On the next day the city council and the state government ordered the populace to refrain from further rioting. The leaders of the manual laborers' and merchants' guilds were told to keep a close leash on their membership, as well as their assistants, apprentices, and anyone else who belonged to their organization, and to take care that they maintained a strict evening curfew. The council then warned the Jews not to engage in any acts of provocation and to lock themselves into their homes at night. These cautionary measures, however, proved unsuccessful, and on the evening of August 3 the rioting broke out anew.²⁷

This time there were no Jews on the street. They had either barricaded themselves in their own houses or sought refuge in the house of the *Hoffude* Jacob Hirsch. Stones were thrown, windows broken, and the shouting of the mob spread terror and confusion throughout the city. Contrary to some reports, the police and the military did not side with the mob, and when it came to a conflict one of the protesters was killed.

The county commissioners attempted to maintain the peace regardless

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of religious affiliation, but neither proclamation nor threats proved effective. The death of one of its members the previous evening enraged the mob even more; in the morning new rioting broke out, which this time lasted the entire day. This time the mob fired on the soldiers and killed one of them. One prominent source says that many Jews were killed during the Hep-Hep riots,²⁸ but the only people killed in Wuerzburg were Christians, one soldier and one protester.

Most of the destruction of Jewish property took place on August 3, the second day of the rioting. If the Jews attempted to defend their property they were brutally beaten. One Jew whose house was attacked barricaded himself on his roof and pelted the rioters with stones, but when it became clear to the Jews that the government was incapable of defending them, panic seized them, and many fled to outlying villages. Abraham Bing, the city's rabbi, fled with the pupils of his Yeshiva to the village of Weikerheim. This corresponds to contemporary reports that no Jews were to be seen in the city because they had either fled or were in hiding.

The tumult grew so large on August 4 that the president of the council was forced to call in reinforcements. Signs of Jewish businesses were ripped down and trampled on. Finally, the rioters invaded the house of Moises Forchheimer. Forchheimer was not at home at the time, but his wife, who was, was forced to pay the rioters 60 pennies to get rid of them.

Gradually, order was restored, and 16 of the ringleaders were arrested. Heinrich Graetz, writing some 40 years later, claimed that students were involved in the rioting, but this was not the case in Wuerzburg or any other German city. In fact, in Hamburg the students came to the aid of the Jews. An article which appeared in the *Neue Speyerer Zeitung* on August 28, 1819, claimed that "students from the local university, armed with clubs, sabers or rapiers dispersed the robbers . . . and so spared the Jews from further mistreatment, the citizens from greater shame, and the Magistrate from higher responsibility."²⁹ Graetz based his claim on newspaper accounts like the one which appeared in the *Berliner Zeitung* which:

claimed that the return of Professor Behr to Wuerzburg was responsible for the rioting. Among the colleagues who went to meet him, was a man who had just written an essay in favor of the Jews, and it was against him that the college boys started chanting the invective Hep-Hep. This encounter got everyone upset, stimulated opposition, and the mob then rushed to the store of a Jew near the bridge, broke all his windows, and threw his wares into the street. In a third report from the same newspaper, a professor was named who tried to interfere with the protesters, a certain Professor Brendel.³⁰

Graetz ignored the fact that the rioters were a distinctly working class mixture of day laborers and skilled craftsmen. When the burgher merchants decided to join the rioters they made sure to put on workers' cloth-

ing as a disguise. In fact, in Hamburg, the rumor was making the rounds that the Buergers had disguised themselves as Plebs so that they could take part in the riots but not be recognized. A citizen who was previously a wine merchant but was currently unemployed was arrested as the leader of a group wearing worker's clothing but would give no explanation of his dress.

Those who were competing economically with the Jews made no secret of their intentions or of the fact that they were going to exploit the situation for their advantage. As soon as the rioting died down, the merchants' guild demanded the limiting of Jewish peddlers, and they spread the rumor that they would show up en masse in front of the Rathaus if their demands were not met—a gesture that meant that the rioting could start all over again. The Senate went along with their demands and published on September 5 an announcement which renewed the ban on peddling in the city. As soon as the Senators recognized the gravity of the unrest, they stopped seeing it as a police issue and saw it instead as a political problem.³¹

Graetz based his explanation of the Hep-Hep riots on what has come to be known as the displacement theory. According to this theory, which found an English exponent in Eleanor Sterling, German nationalists were looking for a scapegoat for their troubles, and since they couldn't overcome Metternich and his crowd, the people who were their real enemies, they turned their anger on the Jews. This explanation corresponds to Katz claiming that the police saw the riots as a political problem, but the available evidence suggests that the real causes were economic. Since the issues driving the riots were economic and class-specific, the students had no reason to join them. Katz emphasizes the economic causes of the rioting when he writes that "Students were nowhere active in the rioting because they lacked the main motivation, because they were unaffected by economic competition."³²

Of the 16 men arrested for rioting in Frankfurt, 15 had either already declared bankruptcy or they were unemployed former soldiers, day laborers or street urchins,³³ a group of people, in other words, who in the best of times were at the periphery of the economy and were being pushed into penury by the influx the lower class Jews who undercut their tenuous connection to the local economy. Katz's list of those arrested undermines Graetz's claim of student involvement. No student was arrested, but those who were arrested comprised "social elements that found no secure place in the economic or social fabric."³⁴ In particular, those arrested included only one "Buerger" or citizen, the "Heckenwirth" Ludwig Schleicher. The rest of those arrested came from social positions beneath that of "Buerger," and included: the masterweaver Leonard Rees, the chimneysweep Gallus Bruckmaier from Geisefeld, Franz Rasch, a whitewasher from Heidings-

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feld, Michael Wohlwind, apprentice shoemaker from Illerreichen, the 12-year-old boy Johann Schwing, who "climbed over the garden wall at the Forchheimers' house and with a number of other boys grabbed two chairs and threw them to the ground which broke them," Ignatz Nuss, day laborer, Johann Riedenaier, citizen and broker, who "put himself at the head of the mob and said, 'this sign has to come down,'" Nickolaus Kluehespies from Hezlos, an apprentice carpenter, county treasury agent Fleckenstein, Philipp Gessert, hatmaker, and finally Wilhelm Pappert, an apprentice shoemaker from Fulda, who may have carried the revolutionary spirit back to his home town. According to a police report from Fulda, the Jew Loeb Oppenheimer charged that on August 13, the day laborer Ignaz Hack in the domicile of the merchant Feuerstein said to him, "You rag-dog you cheated old folks, and now you're a rich parasite, and when what happened in Wuerzburg happens here, I'm going to separate you from your head."³⁵

After describing the rioting as "two terror-filled days," the author of a contemporary newspaper account claimed that the cause of the unrest could be traced to "a general dissatisfaction over the noticeable increase in the number of Jews . . . especially of those who were not allowed to live here." This influx of what must have been poorer Jews created "a volcano of resentment against them," which "finally erupted" in violence when:

Large mobs stormed the houses of local Jews, and with loud cries tore down their signs and their commercial firms, and totally destroyed them, and smashed their doors and windows and stores, and since many Jews tried to defend themselves they ended up getting beaten for their pains. One local Christian citizen and merchant lost his life in the tumult. These scenes of terror repeated themselves yesterday anew and the living quarters, stores, and signs that didn't get destroyed yesterday got destroyed today. As a result, the Jews fled in droves out of the city, a sight that left many shaken, because there was no way to discern what was being said amidst all of the wailing. After the military was called out, they eventually established order, even though many lost their lives in the process. Today no Jew is to be seen in this town. One segment of the population has fled; the other is in hiding.³⁶

The visibility of the Jew, as Rohrbacher points out, was a key factor in the rioting, which began when Jews were ordered off public sidewalks with the command, "*Jud, mach mores*." If the Jew did not step aside, that command was followed by the more threatening cries of "*Hep-Hep, Jud verreck*." "It was no coincidence," he claimed, "that the 'Hep-Hep' riots began in Frankfurt when the Jews were forced off the sidewalks and beaten back from the post office."³⁷ Both were public places. Jews in public places meant an increased presence in the economy which spelled disaster for that economy's marginal players. Rohrbacher predictably blames anti-Semitism as the main cause of the riots and goes on to claim that "the real question is whether we see antipathy to Jews and anti-Semitism as a response to pan-

cultural givens and developments or whether we view them as independent phenomena with their own contours and potencies.³⁸

But the claim that anti-Semitism caused the riots to the exclusion of economic causes rests upon a false dichotomy. Emancipation and economics were not—as he claims—mutually exclusive categories when it came to understanding the causes of the riots. The visible presence of Jews was an omen that hard financial times were on their way or an explanation of why those hard times had already arrived. The Jews became the focal point of protest largely because of their unethical business practices. In each city, the causes for the rioting were the same. The presence of the Jew was synonymous with cut-throat business practices that were driving the established merchants and craftsmen to the wall.

Katz and Stefan Rohrbacher claim that the cause of the rioting was anti-Semitism, but the overwhelming majority of the evidence which Katz himself brings up (and Rohrbacher ignores) points to economic causes for the rioting. Scheuring set off a storm of controversy when he claimed that “Everyday experience testifies to the fact that those regions are the happiest where the spirit of Jewish usury and Jewish corruption are not found.”³⁹ In writing his polemic against the Jews, Scheuring was articulating the largely economic fears that came into the average man’s mind when Jews began to proliferate in his city, a position which Katz himself supports when he writes that “The majority of the citizens of Wuerzburg undoubtedly sided with Scheuring, and most of what he said didn’t go over their heads.”⁴⁰ When Scheuring writes that:

The natives of Bavaria find themselves in a situation in which they are forced to emigrate to places like the United States and Russia, while at the same time foreigners and asiatic aliens pour into our land depriving the native born ethnic inhabitants of their jobs, their bread, and their way of living and infest our state at the expense of the citizenry with their markedly noticeable increase,⁴¹

Katz is forced to admit that “Word of this sort was most certainly traveling from mouth to mouth” and furthermore that “the claim . . . that the resentment against the Jews had been evident for quite some time and that the pogroms were simply the explosion of long-held resentments is not unfounded.”⁴² In Wuerzburg the source of the ferment began in the circles of “self-serving ruthless merchants,” who made it a practice to “massively undercut the prices of virtually everything that was for sale with their wares.”⁴³ It was with Jewish businessmen of this sort that the native merchants of Wuerzburg had to compete.⁴⁴ During the night of the pogroms, one government official heard a construction worker complain that “the Jews ruined the commercial class.”⁴⁵ Scheuring repeated these accusations in his book. The rioters were the people who were the most hurt financially by the influx of the lower class Jews who made their living from peddling.⁴⁶

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At the end of his book Scheuring proposes settling Jews in separate villages removed from all contact with the general population and gradually forcing them out of moneylending and commerce. Katz feels that it is questionable whether Scheuring himself felt that his proposal was practically realizable, and claims that in submitting it, Scheuring was indicating that this was the best way to get rid of the Jews. If this weren't possible, then their neighborhoods were to be limited as well as their occupations. And if this weren't possible, at least no further attempts at expanding their rights should be tolerated, much less giving them full civil rights and equality with the rest of the citizenry.

In April 1820 the "*Durchlauchtigste Deutsche Bundes-Central-Untersuchungs Commission*" concluded that the basis for the riots was business and earnings envy ("*Geschaefts- und Erwerbs-Neide*"). The author of an article which appeared in the *Frankfurter Journal*, August 7, 1819 saw economic issues as the cause of the rioting as well:

Even though events like this fill the heart of mankind with pain, it has to be said nonetheless that the Jews in Germany are better off than the Christians: they don't work, and don't want to work; they take over every facet of commerce, and since they are willing to put up with all sorts of insult and humiliation, they succeed in selling their goods at ridiculously low prices, while the honest Christian merchant starves to death in his empty store. In the time before the recent wars, there were no Jews here, but the wars allowed them to settle here. In the few years that they have lived here, the number of the Jews has increased significantly, largely through deception, and now we have reached the point where the father does business out of his house, while his wife goes about peddling in the streets, and his son sets up his push cart on some street corner, and as a result the Jew triples his earnings, something which is forbidden to Christians.⁴⁷

The same writer goes on to complain that:

The Christian skilled craftsman, who must earn his bread by the sweat of his brow, has to raise his boy until he is confirmed and then he has to find an apprenticeship for him that involves the expense of his upkeep for another six years. When that's over he has to cover his son's *Wanderjahre* expenses and then the expenses of the *Muthjahre* after that until finally he is certified as a *Meister*.

But:

The situation with the Jews is totally different. When his son reaches the age of 14 or 15, the Jewish moneychanger takes his son with him to his office, and there instructs him on how he can feed himself with practically no effort at all. The result of all this is that the Christian if he's lucky and industrious can become financially independent at the age of 30, whereas the Jew has already accumulated large amounts of money. Realities like this are necessary to open the eyes of Christians. These are truths that cannot be contradicted. There is a lot of talk now about the moral improvement of the Jews. I would counter that with a few words. The Jews as Jews cannot be reformed. Because of their talmudic religious principles, they will remain what they always have been, in spite of all of the En-

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lightenment that is taking place around them. The only means to real reform is conversion to the Christian religion, and to make that conversion the condition for their participation in our economy because only in this way can he brought closer to Christian morals and mores only in this way can the Jew be improved to the point that his behavior is in line with the norms of a Christian society. Our final hope is that the king and his powerful government will bring an end to the immoral business practices and the trafficking in junk that are driving our fellow citizens to the poor house.⁴⁸

The official report issued by the city of Hamburg saw economic causes for the rioting as well, blaming

the influx of small time retail and peddlers into an area which the guilds considered their exclusive domain, and the Jewish presence, unlike earlier eras, in public places, in coffee houses, squares, hostels, as well as their appearance in groups making overt gestures which gave the impression that they intended to take over these places and drive out the natives.⁴⁹

The Hep-Hep pogroms which began in the Bavarian city of Wuerzburg one day after the fast day which fell on the ninth of Ab, the day commemorating the destruction of the Temple, then spread to the cities and villages of Bavaria, to the south in Wuerttemberg and Baden and from there to the north where the major conflagrations took place in Frankfurt, Heidelberg, and Hamburg, and outside of Germany the Danish capital Copenhagen.

The first city to follow Wuerzburg's example was Frankfurt. On August 6, news of the events in Wuerzburg arrived in Frankfurt and from this day on, Jews on the street were hassled with cries of "Hep-Hep." As in Wuerzburg, commentators saw economics as the cause of the rioting. On August 7, the author of an article which appeared in the *Frankfurter Journal* claimed that in Germany Jews were better off than Christians. The Christians worked by the sweat of their brows for their daily bread, while the Jews found the easier way by suppressing Christian competition, becoming rich at their expense. Every attempt, the writer continued, to reform the customs of the Jews is pointless and will remain so as long as they refuse to be baptized.⁵⁰ As in Wuerzburg, one incident after another pointed to economics as the main underlying cause of the riots. In Frankfurt, two female peddlers were attacked while selling their wares on the street by the owner of a store who screamed at them that they were robbing him of his ability to earn a living. The store owner was fined for the attack, but in the end he didn't have to pay because he wrote up a report in which he claimed that he had suffered financial damages because of the activity of the peddlers, which was completely illegal.⁵¹

The Jewish community in Frankfurt was historically the oldest in Germany and as in Wuerzburg, their status changed dramatically during the French occupation. From 1806 to 1813 Frankfurt was the capital of the small principality which Karl von Dalberg ruled with Napoleon's protection. In

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exchange for a lump sum of 440,000 gulden, a deal which got brokered by the Rothschilds, Dalberg granted the Jews civil rights in spite of the sharp opposition of the Christian citizens and the members of the Senate. When the Senate returned to power after the fall of Napoleon, they refused to recognize the rights granted to Jews and restored the status quo ante to the outrage of the local Jews.⁵²

The legal issue was whether the deal which Dalberg cut with the Jews was binding on the Senate. The Senate resisted all efforts to accept the demands of the Jews because since 1816 they had been held in check by an assembly chosen from the representatives of the petit bourgeoisie merchants and skilled craftsmen, who held fast to their prejudices against the Jews and saw in the Jews dangerous competitors in the struggle for existence.⁵³ Whenever the Senate was ready to compromise, the petit bourgeois assembly, fearing the loss of their livelihood, vetoed their measures. As a result the emancipation discussion dragged on for four or five years without any solution. In the end, no one was happy with the new status quo. The Jews felt that they had been deprived of their rights and the 440,000 gulden they had paid for them, but the general population perceived the compromise as a sell-out of their interests.

Into this already tense atmosphere the first news of the rioting in Wuerzburg arrived.⁵⁴ "Anyone who knows the all but universal feeling of antipathy toward the Jews," the *Frankfurter Allgemeine Zeitung* opined, "could have predicted a repeat of the riots in Wuerzburg in other German cities."⁵⁵

The tensions were the same in both towns because the economic situation which gave rise to the tensions was the same as well. The first acts of violence took place on August 7, when messengers from Jewish and non-Jewish firms got into an argument at the post office over who was first in line to get their letters. The Christian messengers drove the Jews out of the post office, and the police were called.⁵⁶

On the evening of August 10, groups of young people started to push Jews off the sidewalks accompanied by all of the usual Hep-Hep racket that had become common in Wuerzburg. Roughly 6,000 men then advanced to the *Judengasse* and the neighboring streets where the Jews lived, broke windows and roughed up the Jews they met on the street. The House of Rothschild was the first to have stones thrown at it. The uprising lasted for three days before the police with the help of the army were able to restore order.

The authorities took the situation seriously because only after long discussions at the Congress of Vienna was Frankfurt able to maintain its independence from Bavaria, which wanted to annex it. Now the Senate had to prove that it could establish law and order in the city with its own police power. Heads of families were told in no uncertain terms that they would be held responsible for any subordinates, that is servants, apprentices or

workers who were involved in the rioting

The Senate warned against any loose talk, which might generate hate and bitterness and promised to protect the rights of all citizens. The Jews were warned that they were to avoid every occasion for disrupting the order of the said city "through their immodest behavior and arrogance so that they would not provoke the Christian citizenry to justified complaints."⁵⁷ The Senate was threatened on all sides with military intervention from neighboring states if they failed to quell the disturbances.⁵⁸

Even after admitting that the Senate took the situation seriously, Katz faults them for their "ambivalence"⁵⁹ and makes much of the fact that "not one of the rioters who was arrested was tried much less punished for what he did,"⁶⁰ but the rioting in Frankfurt never reached the same level as the riots in Wuerzburg. In Wuerzburg, no Jews were killed. In Frankfurt, no one was killed and the damage was limited to property. The attacks on the Jews consisted mainly in brawls, insults and broken window panes.

During the late summer of 1819, the rioting continued to spread. On the 10th and 12th of August, rioting broke out in Bamberg and Bayreuth, causing the King of Bavaria to fear that the pogroms might lead to revolutionary activity against the government.⁶¹ The pogroms then spread in every direction. One contemporary account claimed that, "The actions in Wuerzburg found imitators, and 'Hep-Hep,' words the Jews fear most, went from mouth to mouth in all of the counties of Germany and awoke the slumbering hatred which the rabble harbored against the Israelites."⁶² Rioting broke out in Darmstadt in Hesse on August 12 just as it was dying down in Frankfurt.⁶³ It then spread to Heidelberg and from there to Mannheim, Bruchsal and even Karlsruhe. Eventually, the "Hep-Hep" movement took hold in every southern German state,⁶⁴ and then it spread north, reaching Cologne and then Duesseldorf by mid August.

On the evening of August 25, the rioting spread to Hamburg, where 15 houses were attacked, windowpanes were broken, and the attackers forced their way into some houses and harassed their inhabitants.⁶⁵ The same pattern repeated itself. The city fathers of Hamburg invited rich Sephardic Jews to settle there in the 17th century, which fostered the economic rise of Hamburg. But by the end of the next century, the rich Sephardim were followed by the not-so-rich Ashkenazi, who earned their livelihoods as laborers, tutors and small time retailers, and were seen as a disruptive element by the merchants and the skilled craftsmen who belonged to the city's guilds.⁶⁶

In the year 1810 the situation of the Jews changed dramatically after the French conquered the city and annexed it as part of the French empire. The city's old laws were replaced by a French constitution, which obliterated all distinctions of religion among the citizenry. Overnight the Jews

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were placed on the same level as their Christian counterparts. With the fall of Napoleon, the Senate returned to power, and suddenly the question of the position of the Jews came up and whether they should be relegated to the status quo which obtained before the French conquest. When news of the attacks on the Jews in southern Germany reached Hamburg, their opponents resorted to the same methods, and, some of the police actually joined the mob.⁶⁷

The rioting then jumped the German border and spread to Denmark. In reality the rioting in Hamburg caused the rioting to spread to Denmark because the Jews in Hamburg fled to Altona, then under Danish administration, when the unrest broke out. After the Jews arrived in Altona, a rumor began circulating that they were going to be invited by the Danish authorities to settle in Copenhagen. As a result rioting broke out in Copenhagen and other Danish cities on September 4 and 5, one week after the rioting had died down in Frankfurt. As in Bavaria, so in Denmark: the Danish king feared the pogroms would lead to revolution, especially after he had heard stories of the mob in Copenhagen chanting, "Today the Jews, tomorrow the king."⁶⁸ The Jews of Denmark had received equal rights in 1814 and their new legal status was the cause of unrest.

On August 6, 1819 Metternich convoked a conference in Carlsbad to look into assassinations that had taken place that spring, beginning with the murder of the writer Kotzebue by the student Carl Ludwig Sand in March. News of the Hep-Hep riots in Wuerzburg and Frankfurt arrived in Carlsbad just as the delegates were assembling, and soon the topic of revolution dominated their discussion. Blinded by their own self-interest, the princes who had become the slaves of their own *Hofjuden* ignored the obvious economic causes of the tumult in Wuerzburg and Frankfurt and focused instead on conspiracy theories, which would have disastrous long-term effects for the Congress of Vienna's attempt to impose peace on Europe.

Unlike the French Revolution which preoccupied the delegates at the Carlsbad conference, the Hep-Hep riots were a workers' rebellion in the mold of the Ciompi rebellion and the rebellions of Wat Tyler and the Jacquerie. In their response to the Hep-Hep riots, the authorities should have dealt with the economic issues which were the ultimate cause of the anti-Jewish sentiment, but instead the princes misread them as a continuation of the spirit which had led to the French Revolution. Under Metternich's direction the Carlsbad conference ignored the obvious economic evidence and headed off into the swampy ground of conspiracy theories, encouraged no doubt by Barruel's *History of Jacobinism*, which had become an underground cult classic, in vogue among both revolutionaries and counter-revolutionaries.

Metternich had other more personal reasons for suppressing discussion of the disruptive effect which Jewish business practices were wreaking in the economies of the German principalities, most notably, the fact that he was their beneficiary. Metternich banked with the Rothschilds, and it was their letter of credit alone which allowed him to escape to England during the revolution of 1848.⁶⁹ In October 1815, Salomon Rothschild wrote to his brother Nathan asking him to purchase 20,000 pounds worth of British stock for "the great man who does everything for [the] Jews,"⁷⁰ which is to say Metternich, the man responsible for Austrian policy in the post-Napoleonic era.⁷¹ Two years after the Hep-Hep riots, when the discussion of Jewish rights was at its height, Metternich broke bread with Amschel Rothschild in Frankfurt in what "was interpreted by some observers as a calculated gesture of support for the Frankfurt Jewish community."⁷² Less than a year later, Metternich received a loan of 900,000 gulden from the Rothschilds in exchange for conferring on the brothers the title of baron from the Emperor.⁷³ Ferguson claims that "the strategy of extending credit and other financial facilities to influential but profligate figures like Metternich and Esterhazy was a highly effective way of ensuring political goodwill and 'friendship,'"⁷⁴ but he fails to add that it was even more effective in blocking any ability to see that the economic causes which spawned the riots could be found in Jewish business practices.

The king of Bavaria articulated the central thesis explaining the riots at the Carlsbad conference when claimed that the pogroms against the Jews were an expression of the revolutionary spirit which dominated Germany at the time, and that he saw in the anti-Jewish rioting the beginning of a revolution, just as the pogroms in Alsace had led to the French Revolution.⁷⁵ The report on the riots in Wuerzburg followed the king's lead and blamed the unrest on secret or quasi-secret societies. The Hamburg Senate dismissed this sort of speculation as nonsense. The obvious cause of the rioting was "economic envy which got exploited by the press."⁷⁶

In his book, *Ueber die Gefahren, welche Deutschland bedrohen, und die Mittel ihnen mit Glueck zu begegnen*, which appeared one year after the Hep-Hep pogroms, Georg Sartorius analyzed the social and political conditions in the German lands and concluded that the social and political fermentation in Germany didn't go that deep and that it didn't threaten the existing system.⁷⁷ In coming to this conclusion, Sartorius got it completely wrong. His misreading of the Hep-Hep riots, which he shared with the German princes, would have disastrous consequences for Europe. By not dealing with the economic causes of the rioting or with the fact that the immoral business practices of the Jews led ineluctably to social unrest, Metternich and his apologists brought about the rise of both communism and socialism, which is to say, the revolutionary movement which their

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efforts sought to thwart. Katz mentions that some people dragged out the old myths of ritual murder and deicide by way of explanation, but the Prussian official who was in charge of the investigation pointed out what the Christian rabble rousers couldn't hide, namely, that the real cause of all the shouting was "bread envy,"⁷⁸ which is to say, the fear that the Jews were going to destroy their Christian economic competitors' ability to earn a living.

This misreading would have disastrous consequences for the social and economic structure of Europe. Led by venal "conservatives" like Metternich, the Congress of Vienna ensured that the interests of each state were permanently divided between the princes and nobility who needed the Hofjude as a source of funds, on the one hand, and the middle class, on the other, which saw in the less affluent Jews who followed in the train of their rich co-religionists life-threatening economic competition.

The unresolved question was *cui bono*? Who benefited from the new economy? The people or the rich Jews who kept the princes in power. *Das Volk oder die reichen Juden*? The nascent German economic vision said that the economy existed for the good of the state and its citizens. The English, soon to find themselves totally under the thumb of Jewish finance, had tacitly opted for the other alternative, and the economic *Kulturkampf* between these two economic theories would continue for another century until it finally eventuated in a shooting war in 1914.

Katz claims that from the point of view of the economic development of the state it was possible to see the Jews as in general making a useful contribution, at least that's how some high officials saw it. The long-time established citizens on the other hand who had to engage in economic competition with the active Jews saw things differently, and their reaction was negative and hostile. Given the influence that the well-off Jews had with the powers that be, the opponents of the Jews couldn't hope to drive them out of the city, but they did try to at least hinder them as best they could. During the negotiations during the state assembly of 1819, the citizens of Wuerzburg joined with plaintiffs from other local communities and demanded that the assembly limit the commercial rights of Jews, especially the permission to engage in peddling.⁷⁹

The Rothschilds, were appalled, by the rioting in Frankfurt. This should come as no surprise since "A good deal of this hostility was specifically targeted at the Rothschild family," in particular, "in 1817" when "noisy crowds had gathered outside Amschel's newly acquired garden," which had become "a symbol of Jewish social mobility."⁸⁰ Behind the haggling that followed in the aftermath of the rioting was the ever-present threat that the rich Jews would leave for greener pastures and take their money with them. The Rothschilds were tempted to move, claiming as James put it in a letter,

that the riots

can only have the effect of causing all the rich people of our nation to leave Germany and transfer their property to France and England. . . . I question whether the sovereigns of Germany will be pleased with a development which will make it necessary for them to apply to France or England when they are in need of funds. Who buys state bonds in Germany and who has endeavoured to raise the rate of exchange if it be not our nation?⁸¹

The French ambassador in Munich tried to exploit the situation, writing a diplomatic post in code to the effect that "*Les Juifs ne sont en sûreté nulle part en Allemagne*," and then asking, "don't we have an opportunity to profit from this circumstance . . . in France. In looking for asylum, they would carry their immense capital here."⁸² On September 17, an article appeared in the *Journal de France*, which suggested that the Jews should leave Germany, where they had been treated badly, and come to liberal France to find a new home. The article was reprinted in the London Times. The Rothschilds of Frankfurt had seriously considered moving their bank to Paris, and they weren't the only Jewish banking firm which considered this possibility, but when the situation calmed down, they gave up their plans to move.

The riots, in other words, polarized the economic situation. The Germans, after the overthrow of the French, were determined to pursue the path of national economics. The Jews, disappointed by the response of the Germans to the Hep-Hep riots became even more committed to the internationalism which was an integral part of Talmudic culture and allied themselves with the English, becoming thereby a fifth column in the Germanies at a time of rising German nationalism.

The Hep-Hep riots were a workers' revolt, not a revolution; the semantic difference between the two terms would become increasingly important over the course of the 19th century. Heinrich Heine was an active but far from disinterested player in defining political terms. As an equally active participant in the revolution of 1848, it was easy to deduce where his sympathies lay, and yet Heine was also a protégé of James Rothschild and a fellow Jew who made a living representing their interests. According to Heine, James Rothschild was "one of the greatest revolutionaries who have founded modern democracy."⁸³ No one, Heine claimed

does more to further the revolution than the Rothschilds themselves . . . and though it may sound even more strange, these Rothschilds, the bankers of kings, these princely pursestring-holders, whose existence might be placed in the gravest danger by a collapse of the European state system, nevertheless carry in their minds a consciousness of their revolutionary mission.⁸⁴

Ludwig Boerne was one of the first observers of the Hep-Hep riots to propose what would come to be known as the socialist revolutionary

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solution. Boerne muddled the waters by claiming that both the Jews and the bourgeoisie had a common enemy in the aristocracy. The aristocrats turned the bourgeois into the "jailer of the Jews . . . because neither the jailer nor the prisoner can leave his cell."⁸⁵ Both lack "freedom." Tacitly exonerating the Jews of the role that Jewish business practices played in causing the riots, Boerne claimed that: "all of the fighting and aspirations of the German people has to be directed against the aristocracy."⁸⁶

Boerne then switches horses in mid-stream and begins to portray the Jewish capitalists as partners in domination who are on the side of the aristocracy, "because the Jew and the aristocrat, which is to say money and hegemony, which is to say material and personal aristocracy, make up the two final pillars of the feudal system."⁸⁷

As with just about everyone who has discussed the Hep-Hep riots, Boerne ends up defending Jewish interests by turning the problem upside down. Boerne felt that the Jewish problem could be solved by solving the problem of German society and its regime, when in fact the opposite was the case. The German problem was an economic problem which could only be solved by dealing first with the Jewish issue, which was at its heart both theological and moral. Graetz himself addressed the moral issue when he said that the morals of Polish Jews had been ruined by their study of the Talmud. No state could incorporate a group into itself who felt that it was their religious duty to cheat their fellow citizens. As usual, the social problem turned out to be an economic problem, which in turn turned out to be a moral problem, which neither the Enlightened revolutionaries nor the venal princes wanted to address. "This uprising must not be forgotten,"⁸⁸ Georg Sartorius advised the politicians. He proposed that the rights of the Jews should not be increased above what would be given to resident aliens and based his solution on the lesson he derived from the riots, but Sartorius's voice was drowned in the rising socialist tide.

Between them, Jews like Rothschild and Lassalle and ex-Jews like Boerne and Marx, would redefine the terms of the struggle to suit their own needs. The rise of socialism meant, in general, the elimination of the Jew and his immoral business practices from the social equation and his replacement by vague impersonal forces like capital and history which would make identifying the problem, much less finding a solution infinitely more difficult.

Endnotes

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Chapter Sixty-Eight

Friedrich List and the Zollverein

In April 1819, Friedrich List, a government official from the principality of Wuerttemberg, traveled to the Easter Fair in Frankfurt. List had been born in the one-time Imperial city of Reutlingen less than a month after the storming of the Bastille into the household of Johannes List, a well-to-do tanner who had been elected the town's Deputy-Mayor in 1800. List showed little promise as a scholar, and when he showed even less aptitude for the tanning business, his father apprenticed him at age 16 as a junior clerk in the Wuerttemberg civil service.

By 1817 List had shown enough promise to rise to the post of Director of Finance in the Ministry of the Interior, but his trip to the fair in Frankfurt was not on governmental business. He had come to present a petition asking the German Federal Assembly to abolish all internal tariffs in the recently re-organized German federation on behalf of a group which called itself the Handels-Verein or trade union.¹ Reutlingen was a militantly Protestant enclave in an otherwise Catholic area. By the time List arrived in Frankfurt, Protestantism had become—in his mind, at least—little more than a precursor of the Enlightenment. Like Fichte and most German Protestants, List was deeply conflicted about recent German history. Like Fichte, List was a devout German nationalist and therefore resentful of the French occupation. But he saw Napoleon and especially the continental economic system which he established in Germany in the wake of his conquest as the bearer of Enlightenment ideals with which he felt a deep sympathy.

Until the arrival of Napoleon, Reutlingen owed its allegiance to the Emperor alone. When Napoleon abolished the Holy Roman Empire in 1806, Reutlingen lost its status as a free imperial city and got incorporated into the kingdom of Wuerttemberg. Napoleon vastly simplified the government and administration of the German principalities, but even the draconian power of a dictator could only reduce the bewildering complexity of German states to 39 principalities and free cities, each of which charged a fee for crossing its borders. Because he came from the once free city of Reutlingen, List considered himself a "born Republican"² and as a result "a lifelong champion of representative institutions, and a powerful opponent of absolutism and servile bureaucracies,"³ something that would soon get him in trouble.

The year 1819 was a time of crisis for Germany. Under Napoleon, Ger-

man states were administered according to his understanding of Enlightenment principles. After the Battle of Jena in 1806, Napoleon turned Europe into a French version of Fichte's closed commercial state, an economic union which was in principle opposed to the English system of free trade. War with England and the ensuing naval blockade only enhanced the isolation which was the *raison d'être* of the continental system.

After the English and Prussian armies defeated Napoleon at the Battle of Waterloo in 1815, the continental system collapsed, and Europe was flooded with English goods. After experiencing the full brunt of English free trade for four years, the Germans awoke to the sobering realization that those same cheap English goods had strangled Germany's nascent, struggling manufacturing base in its cradle. Napoleon's destruction of the Holy Roman Empire, however, had left Germans with a host of political options as potential solutions to a growing economic crisis. German Romanticism, which was one response to the Germanies' defeat at the hand of the French Enlightenment, sought refuge in an ethnic Catholic view of the Middle Ages. Adam Mueller (1779-1829) tried to come up with an economic explanation of how to implement that design, but the details were far from clear. Szporluk claims List was influenced by Mueller, who "believed that free enterprise and competition caused 'disorder and loosen(ed) the traditional personal ties.'"³ Like List, Mueller objected to free trade because it destroyed "the ideal of a self-sufficient and independent state."³ Arcadius Kahan claims that List "probably borrowed more from Mueller than from [Alexander] Hamilton."⁶ List, however, was no Romantic. He rejected Mueller's idealization of the Catholic Middle Ages and their Guilds as having any relevance for Germany in the aftermath of the Napoleonic era and felt that "future of Germany lay in the dynamic growth of progressive capitalism."⁷

Unlike Mueller, List welcomed the industrial revolution and its political, social and cultural consequences. Unlike Fichte, List did not propose Utopian theories. In fact, List suffered from the exact opposite problem. He saw in the tariff the one solution to all of the German Federation's economic problems. Unlike Fichte, who had the luxury of speculating in his addresses to the German nation about a future over which he had no control because of the French occupation, List confronted economic problems which needed immediate attention. The German principalities which had opposed Napoleon were now faced with a crushing debt as a result of years of war, as well as a lack of revenues because English cheap manufactures had weakened their ability to create wealth and, therefore, raise tax revenues. The faltering economy that diminished their tax revenues made virtually all of the German princes reluctant to contemplate the abolition of tariffs because, even if tariffs crippled commerce more than war, internal

tariffs were these princes' only reliable source of income.

The political situation in 1819 was even more perplexing than the economic situation, because it was fraught with more alternatives. The same Utopian impulse which had prompted Fichte to write *Der Geschlossene Handelstaat* had spread throughout the entire population. Like many of his contemporaries, List took an active role in proposing schemes for political and economic reform in the wake of the collapse of Napoleon's continental system. "In 1819," List wrote later in life:

all Germany teemed with schemes and projects for new political institutions. Rulers and subjects, nobles and plebeians, officers of state and men of learning, were all occupied with them. Germany was like an estate which had been ravaged by war, whose former owners on resuming possession of it are about to arrange it afresh. Some wanted to restore everything exactly as it had been, down to every petty detail; others wanted to have everything on a new plan and with entirely modern implements; while some, who paid regard both to common sense and to experience, desired to follow a middle course, which might accommodate the claims of the past with the necessities of the present. Everywhere were contradiction and conflict of opinion, everywhere leagues and associations for the promotion of patriotic objects.⁸

Wherever he looked, List found an administrative apparatus inherited from the feudal era of the Holy Roman Empire when direct labor to the lord and not money was the basis of the economy. In 1819 Germany had to make an overnight transition from a labor-based feudal economy to a money economy that equaled England's in sophistication. The transition which had taken the English and the Italians centuries had left the Germans' hopelessly behind economically. Before the Napoleonic conquest, Germany was a hopelessly complex mish-mash of political and economic units none of which approached the economies of scale or political unity of larger modern states like France and England.

As of April 1819 Germany still had not recovered from the effects of the Napoleonic wars. The requisitions of military commanders had left states, provinces and towns deeply in debt. Worse than that, commerce was so constricted by tariffs collected on innumerable internal borders that it was difficult to impossible to earn enough money for subsistence much less a surplus from which one could repay sovereign debt. These problems plagued even the largest German kingdoms:

Trade between the eastern and western provinces of Prussia was hindered because the two regions were separated by the territories of other German states. . . . Unemployment, pauperism and vagabondage were grave social problems. Internal trade was hampered by tariff barriers and by numerous road and river tolls. The home market was swamped with cheap English goods. J.F. Benzenberger complained that Germany had become a market stall for English hucksters. And there could be little hope of a revival of exports so long as Britain

imposed high duties on corn and timber; Russia and Austria levied prohibitive duties on linens; and France virtually closed her frontiers to manufactured goods from the Rhineland.⁹

Because of the political and economic fragmentation imposed on Germans by the Holy Roman Empire, the German principalities were centuries behind the economic developments which had taken place in England and neighboring Holland. In spite of the innovations which had swept over them when Napoleon's armies had conquered them, the economic fragmentation, largely as a result of internal tariffs, still remained. Faced on the one hand with feudal lords who still insisted on medieval privileges—like having their serfs fix their roads—and an intransigent bureaucracy which saw no reason to change its ways on the other, many Germans chose emigration as the only way out of a hopeless situation. Internal tariffs made the exportation of food from one principality to another uneconomical. As a result, local food shortages led to famine, and famine led to despair and ultimately emigration, driving some 20,000 Germans to emigrate to the United States and Canada and 5,000 to Russia.¹⁰

On April 29, 1817 List was sent to Heilbronn to find out why so many of the king's subjects were leaving Wuerttemberg and to try to persuade them to change their minds.¹¹

When List arrived at the quay on the Neckar in Heilbronn, he found between 600 and 700 people ready to embark for Rotterdam and the New World. These people were ready to share their grievances with List because he was the first official they had encountered who was willing to lend a sympathetic ear to their complaints. List quickly learned that a combination of outmoded political arrangements and newly created economic circumstances had made life so intolerable for the Germans that they were willing to risk the dangers of a trans-Atlantic voyage to escape. As an example of the former ills:

Witnesses complained that they had been harshly treated by their feudal lords. The wild boars hunted by Herr von Weiler ruined the crops of the peasants on his estate but they received no compensation. The landed gentry forbade peasants to gather fire-wood in their forests. Feudal obligations were harshly enforced. Villagers had to neglect their own work to perform forced labor on the roads or in the lord's fields. One witness complained that he had twice been imprisoned for failing to report for forced labor although he had an injured leg—a legacy of the Moscow campaign.¹²

In addition to the arrogance of feudal lords, the emigrants complained that their incomes had fallen off to the point where high local taxes, tithes and manorial dues, combined with unemployment and rising prices had reduced them to hopeless poverty. Their desperation found its most pointed expression when one of the emigrants told List, "We would rather be

slaves in America that citizens in Weinsberg."¹³

In the end, List was able to persuade only three families to return to Wuerttemberg.¹⁴ Seeing fellow Germans willing to endure the hardships of a trans-Atlantic voyage and the predations of "those dealers in human flesh" who arranged it rather than put up anymore with the intolerable situation at home, List concluded that "complete overhaul of the local administration in Wuerttemberg was now . . . a matter of urgency."¹⁵ List's proposals for reform came to the attention of his patron von Wangenheim, who eventually had him appointed professor of the newly created discipline of public administration at the University of Tuebingen, but List's lack of academic qualifications plus the opposition of reactionary colleagues soon put an end to his academic career. He arrived in Frankfurt for the 1819 Spring fair after finishing off his final semester as a University professor.

List's genius lay in his ability to use the new science of political economy to see through the chaos that followed the collapse of Napoleon's continental system and get to the underlying cause of that chaos. The problem, according to List, was free trade. The economic crisis which afflicted Europe and its colonies in 1819 came about as a result of the resumption of trade after the Napoleonic wars. Napoleon's claim that any country which allowed its economy to be run according to the principles of free trade "would be ground to dust"¹⁶ had proven prophetic. England exploited its victory over Napoleon by flooding the continent with cheap manufactured goods, which undercut the prices of local producers and destroyed the productive power of the economy. Years later, List described the crisis that was driving his fellow Wuerttembergers from their native land as essentially economic:

The downfall of Napoleon was the signal for English competition, restrained during his rule to the work of smuggling, to assert and regain its power upon the continent of Europe and America. For the first time the English were then heard to denounce the protective system, and to extol Adam Smith's theory of free trade, a theory which these practical islanders had hitherto branded as utopian.¹⁷

The end of the shooting war at Waterloo marked the beginning of England's economic war against her erstwhile allies on the continent. "The English government," according to List:

avored very efficiently the inundation of the continental markets with manufactured goods, for the purpose of smothering in the cradle the infant manufactures of the continent. . . . The inundation took place precisely as if predetermined; an illustrious member of parliament, Henry Brougham, afterwards Lord Brougham, had plainly declared in 1815, that "England could afford to incur some loss on the export of English goods, for the purpose of destroying foreign manufactures in their cradle."¹⁸

As List wrote in his *magnum opus*:

Barren Metal

The whole of the war expenditure was carried, in the form of manufactured articles to the theater of war, where such importations contributed powerfully to ruin the foreign manufactures, already in extremities, and to secure for ever the external market for English manufactures.¹⁹

The English could afford to promote free trade because "Better provided with capital," the English "could furnish better goods, and at lower prices, and given much longer credits than the Germans, who still had to struggle against the difficulties of a commencement."²⁰

Still plagued by the decentralization which it had inherited from the Holy Roman Empire, Germany was at a double disadvantage when it came to manufacturing and commerce. The German principalities were "encircled by the custom barriers of England, France, and Holland,"²¹ but worse than foreign tariffs were the internal customs boundaries, which:

cripple inland trade, and produce much the same effect as ligatures which prevent the free circulation of the blood. The merchant trading between Hamburg and Austria or Berlin and Switzerland must traverse ten states, must learn ten customs-tariffs, must pay ten successive transit dues. Anyone who is so unfortunate as to lie on the boundary-line between three or four states spends his days among hostile tax-gatherers and custom-house officials; he is a man without a country.²²

Summarizing the state of German economic life in 1819, List claimed that "small countries are all boundary."²³ The solution came to be known as the *Zollverein*, or customs union, which abolished all internal customs while establishing tariffs at the borders of neighboring countries whose main purpose was the protection of nascent manufactures until they reached the stage when they could compete with the English manufacturing juggernaut. List insisted that "Only the remission of the internal customs and the erection of a general tariff for the whole federation, can restore national trade and industry or help the working classes."²⁴

It was this request "for the removal of all custom-duties and tolls in the interior of Germany and the establishment of a universal German system founded on the principle of retaliation against foreign states,"²⁵ which List presented on behalf of the Union of German Merchants and Manufacturers to the German Federal Assembly in April 1819, claiming that:

In a country where it is common knowledge that the majority of manufacturers are either entirely ruined or drag on a precarious and burdensome existence, where the fairs and markets are filled with foreign wares, where merchants have lost their occupation, there is little need of detailed proof to show the intensity of the evil.²⁶

On April 18, 1819 the Anti-Free Trade party met at the restaurant Zum Goldenen Ross and after establishing a Union of German Merchants chose List as their secretary. Shortly thereafter, List wrote to his wife: "God be

praised. A great Union of German Merchants has been founded, an event which can indeed have significant consequences."²⁷ Six months later, on October 17, 1819, List's appointment was formally ratified by the Union, which agreed to pay him an annual salary of 3,000 florins plus expenses. List then founded the *Organ fuer den deutschen Handels und Fabrikantenstand*, one of the many journals which he would edit during his lifetime, to publicize the activities of the Union and to create a Zollverein "which would include all the states in the German Federation."²⁸

The ease with which the Union of German Merchants got off the ground belied the difficulties it faced in convincing German princes to give up their petty privileges in favor of a more powerful union. The case for a Zollverein was not obvious when viewed from the point of view of princes whose tiny principalities derived the main part of their income from internal tariffs. Certain Prussian territories, for example, were entirely surrounding by the duchies of Anhalt and Thuringia, and these smaller German states did not hesitate to exploit their geographical advantages at the expense of their neighbors. Hesse-Darmstadt and Nassau, to give another example, "controlled only short stretches of the Rhine," but "levied high transit dues on river traffic passing through their territories."²⁹ Because of their geographical position on the coast and their links with England, the former Hanseatic free cities on the North and Baltic Sea coasts opposed the Zollverein in principle and "pursued a free trade policy which encouraged the import of foreign manufactures and colonial products for distribution throughout central Europe."³⁰ Internal river ports like Frankfurt am Main were equally "notorious as centres for smuggling English and other foreign product into neighboring territories."³¹

List submitted the Petition of the Union of German Merchants and Manufacturers to the German Diet on April 14, 1819. It called "for the removal of all customs-duties and tolls in the interest of Germany and the founding of a universal German system founded on the principle of retaliation against foreign states."³² Submitting a petition and getting it approved, however, were two very different things, especially since "German nationalism was still a suspect and a dangerous liberal cause."³³ List as a result began personally lobbying German leaders in a campaign which would last for the rest of his life, detracting in no small amount from his ability to produce the scholarly economic writings which his mind was capable of producing and which the protectionist school needed so desperately to counter the writings of Smith and the classical school.

From 1819 until the collapse of the Union of Merchants in 1823, List traveled from one German capital to another campaigning for his *Zollverein*. In November 1819 he arrived in Berlin. On January 5, 1820, he arrived in Vienna to plead his case there. On May 11, 1820, he met with Klemens

von Metternich the political architect of post-Napoleonic Europe, who dismissed List's idea as "no more than a pious wish."³⁴

Metternich's suspicion of any innovation as potentially revolutionary became apparent when representatives of nine German states held a conference at Carlsbad in August 1819. Freiherr von Berstett, the Baden Foreign Minister, circulated a memorandum advocating the removal of tariffs within the territories of the German federation, but Metternich, who convoked the Carlsbad conference and was the architect of the European peace settlement after the Congress of Vienna, feared that any innovation in the status quo ante was crypto-revolutionary activity. For the next 30 years, Metternich would consider List, whom he met in person more than once, "one of the most active, crafty, and influential German revolutionaries."³⁵ Like Metternich, the King of Bavaria viewed List's nationalism as "novel and revolutionary"³⁶ and kept List under surveillance whenever he visited Munich.

List tried to circumvent the charge that he was a revolutionary by claiming that the Merchants' Union was not a political organization, but the claim rang hollow in minds like Metternich's, whose suspicions that the French Revolution was about to break out anew were confirmed by the Hep-Hep riots, news of which arrived during the Carlsbad conference. The murder of Kotzebue by George Sand in March only exacerbated his suspicions. That act of terrorism "had greatly alarmed the governments of Austria and Prussia."³⁷ As a result, Metternich "took drastic steps to curb all revolutionary and liberal movements in Germany."³⁸ One month before List officially assumed his duties as head of the Merchant's Union, Metternich used the Carlsbad conference to impose "strict censorship on newspapers and periodicals for five years and adopted various other measures to check revolutionary activity."³⁹

List soon ran afoul of Metternich's efforts to crack down on anything that seemed revolutionary. After spending over a year in vain trying to get Bavaria and Austria to join together in their own southern German Zollverein, List returned to Reutlingen, where he had been elected to a seat in the lower house of the assembly. After taking his seat on December 7, 1820, List continued his campaign for a customs union and administrative reform by publishing a petition which, among other things, warned the government of the danger of taxing the people too heavily.⁴⁰

A little over a month later, Reutlingen's Police Commissioner showed up at List's door to ask him if he were the author of the petition, and after List responded in the affirmative, Police Commissioner Katzmaier "asked him to hand over any other copies in his possession."⁴¹ The Police Commissioner's visit initiated a sequence of events that would eventuate in legal proceedings against List which charged him with "insulting the king, slan-

dering judges and civil servants and breaking the press law."⁴²

On February 24, 1821, the Wuerttemberg lower assembly moved by a vote of 56 to 36 to expel List pending the outcome of his criminal trial. Fourteen months later, on April 6, 1822, List was found guilty on all counts by the criminal court in Esslingen and sentenced to ten months' imprisonment. Not waiting for the sentence to be executed, List slipped out of Stuttgart on April 24, 1822 "like a thief in the night,"⁴³ and headed for French territory. After crossing the Rhine, *sans passeport* via a boat he hired at Auenheim, List took up residence in Strassbourg, joining there "the ranks of the numerous exiles who—under the shadow of the Carlsbad decrees—were the victims of Metternich's unrelenting witch hunt directed against German democrats."⁴⁴

On September 16, the prefect of Bas Rhin, reacting to pressure from the authorities who had persecuted List in Wuerttemberg, then pressured the mayor of Strassbourg to expel List from France within 24 hours. Eventually, the Swiss canton of Aargau granted List political asylum on September 11, 1823. Worn out by his life in exile, List returned to Wuerttemberg hoping to win clemency in 1824. But his hopes were in vain, and he began his ten-month sentence. Realizing that they would have to deal with List's agitation once again in a matter of months, the authorities in Wuerttemberg offered their captive a deal. If List would promise to emigrate to America, they would release him five months early.

During the part of his exile which he had spent in Paris, List had made the acquaintance of the Marquis de Lafayette, the French hero of the American Revolution, who was planning to embark upon a triumphal tour of the nation he had helped liberate from English rule. Lafayette had offered to take List with him as part of his entourage, and when the deal from the Wuerttemberg government for early release was proposed, List remembered Lafayette's offer and accepted "everlasting banishment as the price of freedom."⁴⁵ No matter what he had to tell the authorities in Wuerttemberg to get out of prison, List never intended to leave Germany for good. In 1828, in the midst of his exile in America, even when he was deeply involved in plans for developing coal mines and railroads, he wrote to Ernst Weber: "It is Germany that lies at the back of all my plans—my return to Germany."⁴⁶

Unlike his hasty previous exit in the middle of the night, this time List could leave the country with a passport signed by the minister of the interior, who claimed that he had authorized List "to undertake a journey to North America for the purpose of academic and literary research."⁴⁷ The minister statement was undoubtedly facetious when he filled out List's passport, but what he wrote was also prophetic. For List did do an enormous amount of research in America. During his years in exile he became fluent in both English and French, and he was able to combine his language

skills and what he had learned about economics into an *opus* which Eugen Duehring, who would later become famous as the object of Friedrich Engels' attack, would refer to as representing "the first real advance in economics since the publication of *The Wealth of Nations*."⁴⁸

Endnotes

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- 3 Ibid.
- 4 Roman Szporluk, *Communism and Nationalism: Karl Marx versus Friedrich List* (New York: Oxford University Press, 1988), p. 100.
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- 8 Szporluk, p. 99.
- 9 Henderson, pp. 32-3.
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- 28 Henderson, p. 18.
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- 30 Ibid.
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- 32 Szporluk, pp. 103-4.
- 33 Szporluk, p. 105.
- 34 Henderson, p. 46.
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- 37 Henderson, p. 36.
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Chapter Sixty-Nine

Friedrich List and the American System

List and his family sailed for the New World on April 26, 1825 and arrived in New York on June 9, after a stormy voyage which lasted six weeks. One day after his arrival, List left for Philadelphia hoping to meet up with Lafayette, who was in midst of his triumphal tour across the young nation he helped found. By the time List got to Philadelphia, Lafayette was already gone, but eventually the two men linked up in Albany, where List was able to join the general's entourage for the rest of the tour, which would allow him to "observe many aspects of the development of the US" and meet the young country's most prominent citizens.¹ In addition to meeting President John Quincy Adams, Henry Clay, Daniel Webster, W. H. Harrison, and Chief Justice Marshall, List met leading members of the Philadelphia business community, a group which was ardently protectionist and would found the Pennsylvania Society for the Protection of Manufactures and the Mechanic Arts in the following year.

Both the United States and the German Federation were in remarkably similar political and economic circumstances when List joined Lafayette's entourage during the summer of 1825. Both were involved in working out the details of political cooperation as one nation composed of several previously independent states in the aftermath of the Napoleonic wars. In addition, manufacturers in both Germany and America claimed that they had been severely hurt by the ravages of English free trade and were in the process of organizing political organizations to fight it. The subtext of political discussion in both countries was economic. List arrived in America when America was in the process of hammering out a politically feasible alternative to English Capitalism. At a time when Adam Smith's *Wealth of Nations* was making its triumphal progress through the courts and universities of Europe, the American colonies were engaged in a life and death military struggle with England, which became a life and death economic struggle once the shooting war ended.

When List became part of Lafayette's entourage in 1825 he came under the influence of Alexander Hamilton's American system by making contact with Hamilton's intellectual heirs. Henry Clay, for example, was known as the father of the American System.² Another leading light of the American System was an Irish émigré by the name of Matthew Carey. Carey had emigrated first to France in 1779 to avoid prosecution for a pamphlet he had published criticizing the severity of the Irish penal code.³ While in

Paris Carey met Benjamin Franklin who hired him as his printer. After another stint in Ireland editing the *Freeman's Journal* and *The Volunteer's Journal*, Carey was in trouble again, and in 1784 he emigrated again, this time to America, which was in the process of organizing an English speaking nation along anti-English economic lines. Upon receiving a loan from General Lafayette, Carey set himself up as a publisher in Philadelphia, and eventually brought out the first American version of the Catholic Douay-Rheims Bible.

The main issues nascent America faced were economic, and Carey found himself in the middle of a discussion of free trade which had been building since the publication of *Wealth of Nations*. Carey and his associates directed List's attention to the static assumptions and unwarranted generalities that characterized British laissez-faire orthodoxy.⁴ After his arrival in America, List expressed views that were very close to those of many native American economists.

In both England and Europe, the English victory over Napoleon had led to unanticipated economic problems. America's difficulties began with the Treaty of Ghent, signed in December 1814, which restored trade relations between the United States and England in a manner favorable to England, which promptly flooded America with cheap manufactures. Carey was convinced that free trade was the main cause of the Depression of 1819. In order to undo the damage, Carey founded the Philadelphia Society for the Promotion of National Industry in 1820 and persuaded the leading citizens of Philadelphia to join. Carey soon became disillusioned with the passivity of his fellow protectionists and when he withdrew from the organization, it ceased to exist.⁵

In 1822 Carey entered the battle over free trade with publication of his *Essays on Political Economy*, followed by numerous pamphlets on the tariff question which he published at his own expense which "went far towards turning sentiment in the direction of a protectionist policy."⁶ List was also indebted to Daniel Raymond's *Thoughts on Political Economy*, a debt which led to charges of plagiarism when List's first letters to Ingersoll appeared.⁷ In spite of passages in List's pamphlet which "are virtually identical with passages in Raymond's book," C. P. Neill concludes that they "are not sufficient to warrant the conclusion that List took his ideas bodily from Raymond."⁸ List's vindication did not prevent Karl Marx from leveling the same charges years later. Some American writers claim that Matthew Carey converted List from his laissez-faire views, but this was not the case. List was an ardent protectionist before he set foot in America. What he gained from his adopted country was confirmation of his theories in the arena of actual economic activity.

The American quest for the economic antithesis to English laissez-faire

free trade Capitalism had been set in motion in 1791 when President George Washington had asked his Secretary of the Treasury, Alexander Hamilton, to deal with the problem of sovereign debt which had arisen from the War of Independence. Royall claims that:

General Hamilton, enamored of the system which Sir Robert Walpole's vicious policy had fastened upon Great Britain, and under which she was having a vast load of debt insidiously piled upon her, set the influence of his great talents and commanding character to work in its behalf here; and by persuading Congress into pursuing his recommendations, he succeeded, after a violent struggle, in educating a large part of the public mind into a belief that a paper promise is the same, or a better thing, than a piece of gold, which the paper promises to deliver.⁹

That paper money is inflationary no one can deny, but to claim that fractional reserve banking was "a fraud in all its parts," as Royall did, bespoke a misunderstanding of the nature of money which would have far-reaching consequences when Andrew Jackson became president in 1828.

Taking his assignment from Washington seriously both theoretically and practically, Alexander Hamilton became the architect of an anti-English alternative to free trade that came to be known as the American System. Hamilton's American system was based on three basic principles: 1) support of industry, which entailed protection of "infant industries" from the competition of cheap imports from abroad by the imposition of tariffs; 2) government finance of physical infrastructure like canals and railroads; and 3) the creation of financial infrastructure in the form a national bank which would regulate credit and provide a stable currency.¹⁰

Free marketeers have dismissed Hamilton's system as little more than a return to the mercantilism of Colbert. William Graham Sumner claimed that Hamilton's reputation for expertise in economics and finance had been greatly exaggerated. Sumner also claimed that Hamilton's economic thinking was marred by "confusion and contradiction" largely because Hamilton was "befogged in the mists of mercantilism."¹¹

In framing their case, the Free Marketeers ignore the political fact that support for protectionism was strong in America, especially in the manufacturing districts of the northeast. Free trade, on the other hand, exerted its influence over an unlikely alliance of anglophile academics and Southern planters. In addition to sectional interests, the whole notion of economics as a science which could aspire to the universal acceptance of Newtonian physics was being contested by Americans like Hamilton and Germans like List, who would claim that economics could only be a science if it were tailored to the particular needs of a particular nation at a particular time in history. Both Hamilton and List realized that manufacturing was in a delicate state in their respective countries *vis à vis* the English manufacturing juggernaut that was promoting free trade and that neither

America nor Germany could contend with England in economic battle if they refused to protect their own manufacturing base, because, as Hamilton stated in his *Report on Manufactures*, "the inherent nature of trade between an agricultural and manufacturing country placed the former at a considerable disadvantage." Hamilton, therefore, asked Congress to enact protective and supportive measures to "the degree in which the nature of the manufacturer admits of a substitute of manual labor in machines." Hamilton did not want America to depend on Europe for manufactures; it ought to possess "all the essentials of national supply."¹² In Hamilton's mind, the "spirit of enterprise" which was the cause of national prosperity was inextricably bound up with manufacturing because "it must be less in a nation of mere cultivators, than in a nation of cultivators and merchants; less in a nation of cultivators and merchants, than in a nation of cultivators, artificers and merchants."¹³

In addition to promoting American manufactures as part of his American System of economics, Hamilton also called for the creation of a national bank, modeled on the Bank of England. By 1791 enlightened minds like Hamilton's knew that debt could be turned into money if it were managed properly. "It is a well known fact," Hamilton wrote in his letter on public credit:

that in countries in which the national debt is properly funded, and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are there equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes current as specie. The same thing would, in all probability happen here, under the like circumstances.¹⁴

Hamilton had learned the lesson which Law had tried to teach Scotland, namely, that the scarcity of money would lead to a deflation of the economy, a drop in the value of land and a lowering of wages. It would lead, in short, to the opposite of wealth and prosperity:

Consequently whatever produces an augmentation of the monied capital of the country, must have a proportional effect in raising that value. The beneficial tendency of a funded debt, in this respect, has been manifested by the most decisive experience in Great-Britain.

Increasing the money supply would also allow debtors "to satisfy their more urgent creditors," which meant that Hamilton and his class would benefit from the system.

The American System may have been the antithesis of the English System, but when it came to fundamental principles, the similarities often outweighed the differences. In his understanding of labor, debt, and money, Hamilton accepted the conventional wisdom of those who counted as advanced economic thinkers in his day. When asked by Washington to solve the debt problem which the United States had inherited from her war with

England, Hamilton drew on the experiences of both the Bank of England and Law's Mississippi Company in France. By the end of the 18th century, an economy based on specie as the medium of exchange was considered obsolete. To begin with, the former American colonies didn't have enough gold and silver to express the financial demands of their economies. Beyond that, a specie-based economy made it virtually impossible to manage the sovereign debt which Washington had commissioned him to manage.

This had become apparent in the bungling way in which the state of Massachusetts had attempted to pay off its sovereign debt. During the deliberations on the constitution which took place during the Annapolis Convention, an armed insurrection broke out in western Massachusetts under the leadership of Daniel Shays, a veteran of the American Revolutionary War. The Shaysites claimed "that the property of the United States has been protected from the confiscations of Britain by the joint exertions of all, and therefore ought to be the common property of all. And he claimed that attempts opposition to this creed is an enemy to equity and justice, and ought to be swept from off the face of the earth."⁵ Shays was referring obliquely here to the fact that Hamiltonians like General Philip Schuyler had used their capital to buy up depreciated securities at pennies on the dollar from the impecunious soldiers who had actually fought and won the war.

The men who had been comrades in arms during the Revolutionary War era were arrayed against each other in economic battle as debtor vs. creditor. The Shaysite debtors were "determined to annihilate all debts public and private and have agrarian Laws, which are easily effected by means of unfunded paper money, which shall still be a tender in all cases whatever."⁶ The Whig oligarchs who had bought up government securities at pennies on the dollar wanted to be repaid at face value in hard money. The state of Massachusetts proved itself incapable of resolving the economic dilemma, and the result was civil war. Faced with the debt which it acquired during the War of Independence, the state of Massachusetts attempted to solve its debt problem by forcing an economy that was based on paper money to pay off the debt in hard currency. The result was revolution—for the same reasons that the Americans had rebelled against England 11 years earlier.

Massachusetts' actions replicated in an uncanny way England's attempts to get Massachusetts to pay for the French and Indian War through the imposition of the Stamp Act. Debt had led to revolution in both instances. When the state of Massachusetts arrested the leaders of the protest, the protesters turned into an armed force, which attempted to seize the Springfield Armory in late January 1787.¹⁷ The rebellion fizzled out in June 1787, but it made a lasting impression on the founding fathers in general and Alexander Hamilton in particular. In *Federalist* Number 6, Ham-

ilton claimed that "If Shays had not been a DESPERATE DEBTOR, it is much to be doubted whether Massachusetts would have been plunged into a civil war."

Usury was the ultimate cause of Shays' rebellion, but since Hamilton felt that usury was part of the financial nature of things, he deflected the blame to government, claiming that Shays' Rebellion was "the direct and inevitable result of the weak national government," which flowed from the state of Massachusetts' attempt to pay off its war debts by imposing "a crushing tax burden," on farmers unable to produce the required gold or silver currency.¹⁸ Hamilton felt that "consolidating the war debt and having the national government assume the responsibility for repaying it would stabilize the states. He also believed that the mere existence of a national debt would tie the states more closely to the government and thus strengthen the union."¹⁹

Hamilton's Whiggery in matters economical had ensured that the successful revolution which followed the war of independence would be followed by a civil war between those victors who were creditors and those who were debtors. Hamilton was a remarkable individual. Like many of his contemporaries—like List, who attached himself to Hamilton's school when he arrived in America—Hamilton was able to make judgments in a way that was intelligent according to the received wisdom of his class and ethnos, but the system he created in reaction to English laissez-faire, free trade Capitalism could not solve the long term systemic problems associated with sovereign debt because he, like Smith and all of the other proponents of moral Newtonianism, was blind to the moral dimensions of the problem.

As a Whig (even a Whig in rebellion against English Whigs) Hamilton had inherited the same penchant for moral Newtonianism that suffused the *Wealth of Nations*. This penchant to seek economic panaceas in the self-regulating mechanisms of the invisible hand blinded him to the moral dimension of economics on two issues in particular. Hamilton failed to understand the significance of labor as the underpinning of manufacturing and he failed to understand the role which usury played in the issue of public credit. Others have noticed Hamilton's tone deafness on the labor issue in his *Report on Manufactures*, in which he praises the factory system because it provides "the employment of persons who would otherwise be idle (and in many cases a burthen on the community), either from the byass of temper, habit, infirmity of body, or some other cause, indisposing, or disqualifying them for the toils of the Country." Among those burdensome idlers, Hamilton includes "women and Children," who "are rendered more useful and the latter more early useful by manufacturing establishments, than they would otherwise be. Of the number of persons employed

in the Cotton Manufactories of Great Britain, it is computed that 4/7 nearly are women and children; of whom the greatest proportion are children and many of them of a very tender age."²⁰

In citing this passage, Beard excuses by claiming that:

In the 18th century . . . the existence and special problems of a working class . . . were outside the realm of politics. . . . The working class problem had not made any impression on the statesmen of the time. Hamilton in his report on Manufactures, dismisses the subject with scant notice."²¹

But by describing the labor force in this way, Hamilton betrays his misunderstanding of the value of labor, as well as the purpose of the family, as well as the relationship between wages, labor, and society in general. Like Adam Smith, Alexander Hamilton was blinded by the prejudices of his class. He knew which measures needed to be taken to ensure Whig hegemony over the economy and the political superstructure which was erected on the economy, but by that very fact he failed to understand that the purpose of the economy was the good of the entire nation, not just the wealth of a particular class which grew rich by being on the positive side of usurious contracts. Hamilton, to his credit, favored population growth and immigration but primarily because they, like the introduction of women and children into the work force, drove down wages. He also opposed slavery, but only because "As population increases, poor laborers will be so plenty as to render slaves useless."²²

Herding women and children into factories bespoke the worst excesses of the English capitalist system that had spawned rebellion in the colonies, and yet Hamilton, even while promoting manufactures, seemed blind to the fact that manufacturing was impossible without labor, and that labor, if it was to exist for more than one generation, had to be paid a family wage, and that national productivity was stunted over the long haul if women and children were forced to labor in factories. Hamilton, in short, was blind to the moral dimensions of the systematic exploitation of labor which came to characterize capitalism during the Industrial Revolution. America would have to learn the hard way--"in the expensive school of experience," as Benjamin Franklin put it--that neither the invisible hand nor tariffs excluding cheap manufactures would resolve the labor issue. It was a moral issue that had to be dealt with on explicitly moral terms.

The same was true of the conflict between debtors and creditors which had led to Shays' rebellion. At the heart of this conflict lay the moral issue of usury, but moral Newtonianism had turned usury into a non-issue for people of Hamilton's class and background. In his report on Public Credit, Hamilton wrote that since "the necessity for borrowing in particular emergencies cannot be doubted," it was "equally evident, that [the nation needed] to be able to borrow upon good terms." Once that became obvious,

it was equally obvious "that the credit of a nation should be well established." Once that became obvious, the only remaining question was "by what means it is to be effected?" The "ready answer" to that question was "by a punctual performance of contracts."

Hamilton had simply adopted Locke's theories of property and contracts, which meant that whatever the contract specified was just because the parties agreed to it. Contracts, in other words, were set adrift in a moral vacuum, which opened the door to both usury and the exploitation of labor. The notion that a man might agree to something out of necessity even if it was unjust, which was implicit in the notion of forced will, contravened the Lockean fiction that contracts were "sacred" no matter what they specified. Locke and his American followers ignored the idea that man who agrees to a usurious loan is like the captain of a ship who throws cargo over board in a storm so that he and his crew will not perish: in short, the entire tradition of moral philosophy as it existed before Locke and Smith is conspicuous by its absence from the Whiggish ethnocentrist thought of the founding fathers. The vacuum which the evacuation of moral philosophy created is filled with apodictic declamations and "self-evident" principles (at least to those who share Whig economic interests). Any consideration of the contextualizing moral content of an economic agreement was obliterated by the term "contract," to which is often appended the word "sacred" as a way of avoiding any discussion of the moral status of its terms. "States, like individuals, who observe their engagements," Hamilton tells us, "are respected and trusted: while the reverse is the fate of those, who pursue an opposite conduct."²³

In order to achieve the ends Hamilton put forward in his *Report on Public Credit*, the United States had to create a central bank which would function as the Bank of England had functioned in the previous century. The United States needed to do this because under the Articles of Confederation, the newly liberated American colonies had failed the ultimate test of the liberal state: "The government under the Articles of Confederation was not paying the interest on its debt and its paper had depreciated until it was selling at from one-sixth to one-twentieth of its par value."²⁴ This, of course, presented speculators with an opportunity which they were not slow to exploit. They bought up paper at pennies on the dollar from the impecunious soldiers who had fought the British, and the soldiers' widows, and now they were determined to create a government that would hold as sacred their speculations by redeeming paper in specie at full face value.

Confronted with this swindle, legislatures responsive to the will of the majority propose "paper money, stay laws, pine barren acts, and other devices for depreciating the currency or delaying the collection of debts."²⁵ This in turn caused *The Federalist* to complain about "the pestilential ef-

fects of paper money on the necessary confidence between man and man, on the necessary confidence in the public councils, on the industry and morals of the people, and on the character of republican government."²⁶ Paper money, according to the Federalists, constituted "an enormous debt against the State chargeable with this inadvised measure which must long remain unsatisfied; or rather an accumulation of guilt which can be expiated not otherwise than by a voluntary sacrifice on the altar of justice of the power which had been the instrument of it."²⁷ Paper money, from the Whig perspective, was sinful, and prolonged use of it led to "an accumulation of guilt" which could only be expiated by sacrificing the interests of those who were too stupid or poor to speculate on government paper by buying it up at pennies on the dollar. This was Presbyterian economics with a vengeance.

What Hamilton failed to mention in his *Report on Public Credit* is that the

Bank of England had made war more likely by facilitating the borrowing of money. Easy borrowing, in turn, augmented by the inexorable nature of compound interest, led to unrepayable sovereign debt. That unrepayable debt irrevocably divided any nation into two mutually opposed factions—taxpayers and tax-eaters, to use Cobbett's terms—or creditors and debtors to use the terms familiar to the founding fathers.

Once state-sponsored usury gained a foothold in any nation, it was impossible to have national unity. Once the Bank of England was created, England's interests were permanently divided between the Whig oligarch private creditors who owned the debt and the public, who as taxpayers were condemned forever on the losing side of compound interest. Hamilton had no qualms about imposing this system on the United States because he was wholehearted in his support of Whig economic principles and ideals. Hamilton's description of creditors could have been taken from Rob Roy. Instead of describing "those who are most commonly creditors of a nation" as usurers, Hamilton refers to them as, "generally speaking, enlightened men; and there are signal examples to warrant a conclusion, that when a candid and fair appeal is made to them, they will understand their true interest too well to refuse their concurrence in such modifications of their claims, as any real necessity may demand." Hamilton failed to see that, then as now, creditors never take haircuts unless faced with the worse prospect of losing their heads.

Instead of seeking a remedy for this deplorable situation, the founding fathers embraced the consequences of usury as part of the natural order of things and set about creating a Newtonian political system of checks and balances which would enshrine it at the center of both the economy and the political superstructure which got erected over that economy. The founding fathers placed the Whig oligarchs who owned the debt in power and

made it virtually politically impossible to remove them. The ultimate fruit of their labors was the Constitution of the United States. The "sacred nature" of usurious contracts was the magic incantation which was supposed to make everything turn out right in the end. It was specifically designed to thwart the economic interests of realty and advance the interests of personalty. In addition, "The contract clause was . . . an added safeguard against paper money and stay laws."²⁸

When the founding fathers were dithering about technicalities at the Annapolis convention, Shays' rebellion scared them into creating a government that would enforce usurious contracts. To bring this about, Hamilton had to engage in deliberate moral obfuscation by referring to the enforcement of usurious contracts as resting on "the immutable principles of moral obligation." Hamilton gives further moral legitimization to usury when he claims that "the debt of the United States . . . was the price of liberty":

The faith of America has been repeatedly pledged for it, and with solemnities, that give peculiar force to the obligation. There is indeed reason to regret that it has not hitherto been kept; that the necessities of the war, conspiring with inexperience in the subjects of finance, produced direct infractions; and that the subsequent period has been a continued scene of negative violation, or non-compliance. But a diminution of this regret arises from the reflection, that the last seven years have exhibited an earnest and uniform effort, on the part of the government of the union, to retrieve the national credit, by doing justice to the creditors of the nation; and that the embarrassments of a defective constitution, which defeated this laudable effort, have ceased.

Hamilton did not deal with the issue of speculation because it would have detracted from the solemnity of his presentation:

To justify and preserve their confidence; to promote the encreasing respectability of the American name; to answer the calls of justice; to restore landed property to its due value; to furnish new resources both to agriculture and commerce; to cement more closely the union of the states; to add to their security against foreign attack; to establish public order on the basis of an upright and liberal policy. These are the great and invaluable ends to be secured, by a proper and adequate provision, at the present period, for the support of public credit.

Paper money was democratic because it was, before anything else, a form of credit which was extended to the nation as a whole. By insisting on payment in hard currency, the Whigs transferred what could have been a true form of public credit for the nation as a whole and turned it into assets for the few who were fortunate enough to be in possession of specie. Democracy and capitalism, in spite of what later propagandists like Michael Novak would say,²⁹ were fundamentally at odds with each other, and the fundamental cause of this conflict at the time of the founding of America and the writing of the constitution was usury. Madison suppressed the moral nature of the conflict by referring to "factions" and portraying the

usury issue as matter of contract in a contest between debtors and creditors when he wrote:

The most common and durable source of factions has been the various and unequal distribution of property. Those who hold and those who are without property have ever formed distinct interests in society. Those who are creditors and those who are debtors fall under a like discrimination.³⁰

In the *Federalist*, Hamilton, Madison and Jay proposed a form of government that ignored the moral odium attached to usury, thereby guaranteeing future conflict, by creating a form of government that "Divide[d] the debtor majority to safeguard the property rights of the creditor minority"³¹ rather than one which sought to ameliorate the advantages which the creditor class automatically achieved because of the unjust operation of usurious contracts. Usury, although unmentioned, was the foundation of the political superstructure because that superstructure was created to safeguard the interests of the creditor minority from the debtor majority. Instead of seeing faction as a moral hazard that could be ameliorated if not avoided entirely, Madison saw it as part of the nature of things. Government, as a result, must accommodate nature. Therefore, as Madison put it, "The first object of government" is the protection of "the diversity in the faculties of men, from which the rights of property originate."³² The chief source of diversity is: "the various and unequal distribution of property. Those who hold and those who are without property have ever formed distinct interests in society. Those who are creditors and those who are debtors, fall under a like discrimination."³³

Usury, in other words, is the fundamental economic fact in the liberal state, and all political arrangements must deal with the unbridgeable chasm it creates. The creditor, who is on the positive side of usury, will prosper; the debtor who is on the negative side of the usurious equation, will sink into unrepayable debt and penury. Government, according to the Whig view, should not modify or ameliorate this situation because to do would be to go against the Newtonian nature of things. Instead, government should protect the privileges of the creditor class against the whining and importuning of the debtor majority.

The word usury was rarely spoken (nor was it entirely absent) during the debates surrounding the ratification of the Constitution of the United States, but the conflict which it spawned was ubiquitous and found expression in the debate between creditors, who favored payment of depreciated debt at face value in specie, and debtors, who favored debt forgiveness and paper money. One writer referred to the hard money creditor as "the lawful usurer," who:

locks up or buries his specie till he sees whether the new frame of government will deliver him from the curse or fear of paper money and the tender laws . . .

Barren Metal

The public creditor, who, from the deranged state of finances in every state and their total inability to support their partial funding systems, has reason to fear that his certificates will perish in his hands, now places all his hopes of justice in an enlightened and stable national government.³⁴

As his letter on public credit made clear, Hamilton never doubted the wisdom of enforcing usurious contracts. Shays' rebellion, in fact, only confirmed him in his views. As a result of the superior political organization of the Federalist party, the Constitution of the United States, ended up subordinating the interests of "farmers and debtors, who opposed the Constitution"³⁵ to the interests of the Whig oligarchs, who owned the debt, and therefore had first call on government tax revenues which were owed to them as interest payments.

The northern Whigs found allies in the "southern planter," who "was also as much concerned in maintaining order against slave revolts as the creditor in Massachusetts was concerned in putting down Shays' 'desperate debtors.'"³⁶ Between them they forged a national consensus on usury which transcended state borders and made the union possible, sowing all the while the seeds of its undoing. In the interim, "the founding fathers made out like bandits,"³⁷ by acquiring a windfall of "at least \$40,000,000"³⁸ when the government redeemed the depreciated securities which they had snapped up at pennies on the dollar at full face value in specie.

An opponent of the Federalist position satirized the sanctimonious, self-serving platitudes of the usury class and their insistence on the sacred duty to uphold usurious contracts, when he wrote:

My countrymen, the devil is among you. Make paper as much as you please. Make it a tender in all future contracts, or let it rest on its own credit—but remember that past contracts are sacred things—and that legislatures have no right to interfere with them—they have no right to say, a debt shall be paid at a discount, or in any manner which the parties never intended . . . To pay bona fide contracts for cash, in paper of little value, or in old horses would be a dishonest attempt in an individual: but for legislatures to frame such laws to support and encourage such detestable villainy, is like a judge who should inscribe the arms of a rogue over the seat of justice.³⁹

On September 17, 1787, the constitutional convention finished its work in Philadelphia and submitted the new constitution to Congress for its approval.⁴⁰ The same Whig oligarchs who created the document then fanned out across the country and concentrated their efforts on getting the state conventions to ratify what they had wrought. Despite their efforts, the results were often distressingly close, calling into question the ultimate legitimacy of the document. The situation in New Hampshire, which ratified the constitution by "the uncomfortably small margin of 57 to 47,"⁴¹ was replicated across the country, leading Beard to claim (contradicting John Marshall, whom he quotes) that: "The Constitution was not 'an expression

of the clear and deliberate will of the whole people."⁴²

One anti-Federalist complained that:

Discontent against the new Constitution found its most overt and violent expression in the Whiskey Rebellion, which broke out in 1791 in response to Hamilton's attempts to pay off the public debt.⁴⁴ The Whiskey rebels "were at length beaten, out-generalled, and outclassed in all the arts of political management,"⁴⁵ but "the whiskey tax was repealed after Thomas Jefferson's Republican Party, which opposed Hamilton's Federalist Party, came to power in 1800."⁴⁶ The reaction was as violent as it was because "the adoption of the Constitution . . . appealed to every money lender, to every holder of public paper, to every man who had any personality at stake."⁴⁷

With the ratification of the Constitution,

The Shays and their paper money legions who assaulted the vested rights of personality by the process of legislative depreciation, are now subdued for ever, and money lenders and security holders may be sure of their operations. Contracts are to be safe, and whoever engages in a financial operation, public or private, may know that state legislatures cannot destroy over night the rules by which the game is played.⁴⁸

Under the leadership of the Freemason who was its Chief Justice John Marshall,⁴⁹ the Supreme Court continued this tradition in 1820 by handing down one decision after another which reinforced the sacred nature of contracts. According to Marshall, who understood the full import of the contract clause better than any man of his generation,⁵⁰ "the obligation of a contract inhered in the contract itself, and could not be changed by any external legislation whatsoever."⁵¹ That meant that the moral or immoral nature of the terms had no bearing on the validity of the contract. This suppression of the moral law would have grave consequences. States were forbidden to interfere with contracts as a way safeguarding the sacred rights of the usurer, which were once again depicted in the most solemn tones as when Marshall wrote:

The power of changing the relative situation of debtor and creditor, of interfering with contracts, a power which comes home to every man, touches the interest of all, and controls the conduct of every individual in those things which he supposes to be proper for his own exclusive management, had been used to such an excess by the state legislatures as to break in upon the ordinary intercourse of society and destroy all confidence between man and man. The mischief had become so great, so alarming as not only to impair commercial intercourse, and threaten the existence of credit, but to sap the morals of the people and destroy the sanctity of private faith. To guard against the continuance of the evil was an object of deep interest with all the truly wise, as well as virtuous of this great community, and was one of the important benefits expected from a reform of the government.⁵²

In his *Life of Washington* John Marshall acknowledged that usury was

the real issue dividing the country into mutually hostile camps of debtors and creditors. Reform was necessary because "the public creditors had lost faith in the old government" under the Articles of Confederation:

That the debt of the United States should have greatly depreciated will excite no surprise when it is recollected that the government of the Union possessed no funds, and without the assent of jealous and independent sovereigns could not pay the accruing interest, but the depreciation of the debt . . . can be ascribed only to a want of confidence in the governments which were controlled by no fixed principles In many of those states which had repelled every attempt to introduce into circulation a depreciated medium of commerce or to defeat the annual provision of funds for the payment of interest, the debt sunk in value to ten, five and even less than four shillings on the pound. . . the hazard from those which were to follow was too great to be encountered without an immense premium.⁵³

John Marshall referred to usurious contracts as "a sacred pledge," but the sacred nature of the usurious pledge was only upheld by the creditor party, which

struggled with unabated zeal for the exact observance of public and private engagements. By those belonging to it, the faith of a nation or of a private man was deemed a sacred pledge, the violation of which was equally forbidden by the principles of moral justice and of sound policy. The distresses of individuals, they thought, were to be alleviated only by industry and frugality, not by a relaxation of the laws or by a sacrifice of the rights of others. They were consequently the uniform friends of a regular administration of justice, and of a vigorous course of taxation which would enable the state to comply with its engagements. By a natural association of ideas, they were also . . . in favor of enlarging the powers of the federal government. . . .⁵⁴

The debtor party was, as one might expect, not convinced that the pledge involved in a usurious contract was sacred. As a result, the debtor party:

marked out for themselves a more indulgent course. Viewing with extreme tenderness the case of the debtor, their efforts were unceasingly directed to his relief. To exact a faithful compliance with contracts was, in their opinion, a harsh measure which the people would not bear. They were uniformly in favor of relaxing the administration of justice, of affording facilities for the payment of debts, or of suspending their collection, and of remitting taxes. . . . In many of these states, the party last mentioned constituted a decided majority of the people and in all of them it was very powerful. The emission of paper money, the delay of legal proceedings, and the suspension of the collection of taxes were the fruits of their rule wherever they were completely predominant.⁵⁵

Marshall's unabashed acceptance of the usurious contract as a "sacred pledge" guaranteed disunity and future strife for the United States. It also generated irony on the part of the paper money debtor constituency who wrote in response to the Whigs:

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Chose no man in debt because being in debt proves that he wanted understanding to take care of his own affairs. . . . A man in debt can scarcely be honest. . . . Vote for no man who was in favor of paper money, for no honest man was for that measure. None but debtors and desperate wretches advocated the diabolical scheme. . . . Elect no man who supported the law allowing debtors to discharge their persons from perpetual imprisonment by honestly delivering up all their property to the use of their creditors. The legislature have no right to interfere with private contracts and debtors might safely trust to the humanity and clemency of their creditors who will not keep them in gaol all their lives unless they deserve it. . . .⁵⁶

Since the majority in the United States were debtors, the Constitution which protected the interests of the creditor class put the nation's financial interests forever at odds with its political ideals. Capitalism and democracy were set at permanent odds with each other by decisions which the founding fathers made deliberately favoring usurious contracts and no amount of tinkering with any possible Newtonian mechanism was going to bring about equilibrium in this system.

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Chapter Seventy

List Discovers Coal

In 1825, Matthew Carey retired from the publishing house he had founded and passed the business to his son Henry C. Carey, who would soon make a name for himself in economics as well. When Lafayette left for France in September 1825 List was faced with the problem of earning a living. Because of the travelling he had done as part of Lafayette's entourage, List was better informed than most immigrants about the economic opportunities which America could offer. He was also aware that the various immigrant ethnic groups had brought their own economic ideas with them because he was able to visit "communist settlements of Wuerttembergers pietists, founded by Georg Rapp" outside Pittsburgh.

In November 1825, List bought a 12-acre farm near Harrisburg, Pennsylvania, on which he intended to build a distillery. Less than a year later, he abandoned his farm and the idea of a distillery as not viable economically and moved his family to Reading, where he joined the staff of *Der Readinger Adler*, a German-language newspaper which served the Pennsylvania Dutch communities in central Pennsylvania.

In 1826, a canal linking Port Carbon in the area near Pottsville with Reading and ultimately, via the Schuylkill River, with Philadelphia was completed. Inspired by the transportation possibilities that now linked the coal regions with the big markets of Philadelphia, List went prospecting and discovered a large coal seam near Tamaqua on the Little Schuylkill River, some 30 miles northeast of Pottsville. Because he was one of the first prospectors in this area, List was able to buy up land, which would eventually shoot up to \$100 an acre, for one-tenth of that price. Eventually, List and his business partners were able to secure the deed to 27,000 acres of land, with plans to devote 10,000 acres to mining and to harvest the timber on the remaining 17,000.² List planned to use the lumber to build a railroad to transport the coal the 22 miles from the pit head to the canal at Port Carbon.

Realizing that a venture like this would be impossible without serious financing, List approached Stephen Girard of Philadelphia, then the richest man in America,³ and was turned down for a \$100,000 loan. Eventually, he was able to borrow money from the firm of Thomas Biddle, & Co., the firm belonging to the brother of Nicholas Biddle, who was then head of the Second Bank of the United States.

Unlike Adam Smith and Karl Marx, Friedrich List was an economic thinker who had to make a living based on his understanding of actual economic opportunities in an actual economic situation. This involved both advantages and disadvantages. On the one hand, he got to understand the complexity of the real economy. Discovering coal and then selling it to a growing, energy hungry city like Philadelphia when steam engines were being introduced across America seemed like a sure proposition, but the complexity of procuring the financing and getting the coal to market at a competitive price were things that List would have to learn in the school of experience.

In 1826, Thomas Cooper, a professor of economics at Columbia University, published a ringing defense of free trade and the system of Smith and Say in his *Lectures on the Elements of Political Economy*. In spite of the fact that Alexander Hamilton and Henry Clay had made tariffs and protected manufactures integral parts of the American system, free trade still had a large following among academics like Cooper and the cotton and tobacco planters of the southern states who sold much of their produce on the English market and purchased most of the manufactured goods that they required from Britain. Their leader was John C. Calhoun and one of their most popular writers was Dr. Thomas Cooper, and it was to refute his arguments that List wrote his first book on political economy.

On July 10, 1827, in response to the glowing reviews which Cooper's book had garnered, List wrote a letter to Charles J. Ingersoll, a Philadelphia lawyer and Democratic member of the U. S. House of Representatives representing Pennsylvania, attacking "the fundamental errors . . . of Adam Smith, & Co" which Cooper propounded in his book. Ten more letters on the topic of protectionism soon followed and eventually, after being widely reprinted in newspapers across the United States, they were collected and published in pamphlet form under the title *Outlines of American Political Economy* in a series of letters to Charles J. Ingersoll, Esq.

After the publication of his letters to Ingersoll in 1827, List would become a leading light in the American System of Economics. Overwhelmed by the response his letters had generated, List proudly informed Lafayette that, "The Pennsylvania Society has engaged me to write a whole work on the American National Economy and I see now before me a life full of usefulness in this country."⁵

In his letters to Ingersoll, List claimed that he was a zealous defender of the "infallible doctrine" of free trade in his youth.⁶ But by the time he wrote his letters to Ingersoll, List came to the conclusion that the doctrine of free trade was outdated. *Wealth of Nations* was written during the Utopian heyday of the Enlightenment when "Freedom throughout the whole world, eternal peace, rights of nature, union of the whole human family,

etc. were the favorite subjects of the philosophers and philanthropists.”⁷ Free trade and the spirit of “let it alone” required neither “great talents nor great exertions”; it also ensured that wealth would remain in the hands of the wealthy. In a democratic country like America in a democratic age like the soon to dawn era of Andrew Jackson, free trade and the spirit of “let it alone” were hopelessly out of touch and out of date: “Dictated by a spirit of cosmopolitanism, it was laid hold of by the age of cosmopolitanism in which it made its appearance.”⁸

List’s conversion began when he saw the problems that followed the collapse of the Continental System established by Napoleon. Because it was spared “the destroying effects” of what the English call trade, “German industry . . . made admirable progress during that time.” According to Dr. Cooper and the free trade school of Smith and Say, it was “ignorance to support an industry by duties when the commodities may be procured cheaper by foreign commerce.”⁹ A claim like this belied the fact that the main goal of the national economy is not the increase of material goods but the increase of productive power:

the object of political economy . . . is not to gain matter in exchanging matter for matter as it is in individual and cosmopolitical economy, and particularly in the trade of a merchant. But it is to gain productive and political power by means of exchange with other nations, or to prevent the depression of productive and political power by restricting that exchange.¹⁰

Free traders err because “They treat . . . principally of the effects of the exchange of matter instead of treating of productive power.”¹¹ List learned that the opposite was the case because he experienced the predatory nature of free trade in Germany. After the collapse of the continental system, Germany was flooded with “English goods a great deal cheaper than the nation could manufacture them.”¹² As a result, German manufacturers “languished” causing prices to decline:

The price of wool and grain, and in consequence rents, wages, and property in Germany sank more and more, and the most ruinous effects followed. At the present day, agricultural produce is three or four times cheaper there than under the continental system, and property has scarcely any price at all. The wool grower and agriculturalist as well as the manufacturers, are ruined and under present circumstance they are not able to procure a third part of the quantity of cheap English goods that they enjoyed formerly of the higher priced domestic manufactures. The contemplation of these effects induced me first to doubt of the infallibility of the old theory.¹³

The Americans had learned the same lesson in their dealings with English free trade. Once in America, List realized that he “traveled in the same way in which the patriots of the United States did.”¹⁴ It was now List’s job to “to lay the axe to the root of the tree, by declaring the system of Adam

Smith and co. to be erroneous—by declaring war against it on the part of the American system.”⁵

List complained that Smith “had entirely forgotten what the title of his book, *Wealth of Nations*, promised to treat.”⁶ *Wealth of Nations* “is a mere treatise on the question: how the economy of the individuals and of mankind would stand if the human race were not separated into nations but united by a general law and by an equal culture of mind.”⁷ Smith dealt with the individual economy and the cosmopolitical economy, but he didn’t understand what a nation was and why it was necessary to view the economy from a national perspective. Smith’s free trade views would be both “natural and beneficial . . . if the whole globe were united by a union like the 24 states of North America.” If that were the case, “there would be no national interest, no national law contrary to the freedom of the whole race, no restrictions, no wars. All would flow in its natural current.”⁸ But that, unfortunately “is not the state of the actual world.”⁹ Smith’s “error consists in not adding to those general principles the modifications caused by the fraction of the human race into national bodies.”²⁰

At one stroke, List invented a new branch of economics, *Volkswirtschaft*, or ethno-economics or national economy, which:

teaches by what means a certain nation, in her particular situation, may direct and regulate the economy of individuals and restrict the economy of mankind, either to prevent foreign restrictions and foreign power, or to increase the productive powers within herself.²¹

In his book, Dr. Cooper did List the favor of stating the English individualist position in its most extreme formulation when he claimed that the nation was a figment of the imagination. According to Dr. Cooper:

the moral entity, the grammatical being, called the nation, has been clothed in attributes that have no real existence except in the imagination of those who metamorphose a word into a thing, and convert a mere grammatical contrivance into an existing and intelligent being.²²

It took little effort on List’s part to show that any economic system based on premises like this “would lead this nation to ruin, to suicide.”²³ It put the devotees of the Scottish Enlightenment in the uncomfortable position of denying common sense because, as List pointed out, the science of economics is incomplete without an understanding of the nation. If there is such a thing as a nation, then there has to be such a thing as a national economy because:

The idea of a national economy rises with the idea of nations. A nation is the medium between individuals and mankind, a separate society of individuals, who possessing common government, common laws, rights, institutions, interests, common history, and glory common defence and security of their rights, riches, and lives, constitute one body, free and independent, following only the dictates

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of its interests as regards other independent bodies, and possessing power to regulate the interests of the individuals, constituting that body, in order to create the greatest quality of common welfare in the interior and the greatest quantity of security as regards other nations. The object of the economy of this body is not only wealth and individual and cosmopolitical economy, but power and wealth, because national wealth is increased and secured by national power, as national power is increased and secured by national wealth. Its leading principles are therefore not only economical but political too.²⁴

National economy is different from both individual economy and cosmopolitical economy. Every nation has its particular political economy, just as every nation has its own language, cuisine, and history.²⁵ The situation of each nation is different. In fact, "nations are as different in their conditions as individuals are. There are giants and dwarfs,"²⁶ and the various national economies have to reflect those differences. It would, therefore, be disastrous for the American economy to model itself on the English national economy because the latter:

has for its object to manufacture for the whole world, to monopolize all manufacturing power, even at the expense of the lives of her citizens, to keep the world, and especially her own colonies in a state of infancy and vassalage by political management as well as by the superiority of her capital, her skill and her navy.²⁷

The American economy, on the other hand,

has for its object to bring into harmony the three branches of industry without which no national industry can attain perfection. It has for its object to supply its own wants by its own materials and its own industry, to people an unsettled country; to attract foreign population for capital and skill; to increase its power and its means of defense and the future growth of the nation. . . . English national economy is predominant; American national economy aspires only to become independent.²⁸

To pretend that there is no nation, it is necessary to assert that there are no national languages, which means that it is impossible to formulate the statement itself. There are no universal prescriptions for prosperity; "every nation must follow its particular course in developing its productive powers."²⁹

List's *Volkswirtschaft* was to Smith's free trade what Kant's synthetic a priori was to Hume's empiricism. It liberated the minds of nations like the United States and the German Federation, which had been subjected to the mind-forged manacles of free trade dogma. Most of what constituted the intellectual breakthrough that is known as *Volkswirtschaft* was negative. In articulating the system of national economy, List disproved the most fundamental dogmas of the classical system, as well as the metaphysical underpinnings which sustained it. List showed conclusively that the economic interests of the individual and the state did not necessarily coincide. When List claimed that "An individual in promoting his own interest

may injure the public interest; a nation in promoting the general welfare, may check the interest of a part of its members,"³⁰ he put the final nail into the coffin containing the invisible hand. When he wrote that "Individuals without the regulations of a community are savages" he demolished the basis for Cooper's arguments. When he wrote that "Industry entirely left to itself would soon fall to ruin, and a nation letting everything alone would commit suicide"³¹ he sounded the death knell for the dogma of *laissez faire et laissez passer*, a principle which "would be only true if individuals and national interest were never in opposition,"³² something which is rarely the case: "Individuals may become rich by hazardous bank schemes, but the public may lose by them."³³

Industry needs to be protected because manufactures are the source of wealth and power. List points out that even Smith's French disciple Say admits that "merely agricultural people remain always poor . . . and a poor people having not much to sell, and less with which to buy, can never possess a flourishing commerce, because commerce consists in buying and selling."³⁴ Just as it is the duty of the navy to guard commerce because merchants cannot protect themselves,³⁵ it is the duty of government to protect manufactures, "by protecting duties, if foreign capital and skill prevent individuals from undertaking them."³⁶

Manufactures needed to be protected from England, first of all theoretically, by coming up with an intellectual alternative to free trade, but also practically from the flood of cheap English manufactured goods which was guaranteed to wreck any nascent native industries by undercutting their prices. These defensive measures were essential to the well-being of nations which had not achieved England's exalted economic status. They were also necessary because English Capitalism was radically duplicitous. The English didn't practice what they preached. They preached free trade, but they practiced protectionism. "With cosmopolitan principles on their lips," English free traders "design to persuade all other Powers to cede their political power in order to render England's productive and political power omnipotent."³⁷ Their protection of the English cloth industry proves that beyond any shadow of a doubt, because, List points out, "Since the time of Elizabeth, no English cloth manufactory was destroyed, either by foreign war on English soil or by foreign competition."³⁸

List felt that the condition of America could not be compared with the condition of any other nation. The United States of America differed in particular from England because in America:

every laborer can earn enough to support his family honestly, nobody will suffer or starve from want of labor, therefore if the laborer cannot earn enough to support his family otherwise, he can cultivate the earth. There is yet room enough for hundreds of millions to become independent farmers.³⁹

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America is exceptional because:

There exists in the United States a degree of industry, of instruction, of emulation, of enterprising spirit, of perseverance, of unrestricted intercourse in the interior, an absence of all hindrances of industry, a security of property, a market and consumption of necessities and comforts of life, and a freedom, such as are not to be found in any other country.⁴⁰

The conventional rules of capital formation do not apply in America, where "a new state of society has a capital of mind never experienced."⁴¹

List claimed that "no other country enjoy[ed] . . . such opportunities and means of attracting foreign capital and skill."⁴² Given his experiences, it is easy to see why List felt that way about the United States, but American exceptionalism blinded List to the fundamental flaws of the capitalist system. List could read the signs of the times. He understood the intellectual flaws and subterfuges at the heart of laissez faire capitalism well enough to propose an antidote, namely, the tariff, but the very antidote he proposed ran the danger of becoming a panacea, precisely because he was so involved in a monumental political struggle to get his idea implemented.

List understood the crucial role which labor played in the economy. He admired Adam Smith for recognizing this fact in *Wealth of Nations*, but he also felt that Smith's understanding of labor was at odds with his promotion of free trade. In April 1825, shortly before leaving Europe for the United States, List wrote:

However much the world may owe to this economist (Adam Smith) in other respects, all his services cannot make amends for the enormous harm that he has done by persuading some of our capricious doctrinaires to accept the doctrine of so-called free trade. Adam Smith's fundamental error is that he ascribes to capital alone a productive power which, in fact, can be created only by labor in association with a large or a small amount of capital.⁴³

In his petition to the German Diet, List argued: "Protect labor and you will feed more people and feed them better," but this valid insight into the role of labor in the economy was immediately subsumed into his all-consuming desire to establish a Zollverein. As a result, the labor issue got subordinated to the tariff issue, as when he wrote: "To protect labor we must establish a high protective tariff which will prevent powerful foreign industries from flooding our markets with their goods."⁴⁴

List's great intellectual achievement lay in his refutation of the idea that the science of economics could provide one-size-fits all solutions to economic questions in much the same way that Newtonian physics could describe the trajectory of any moving body. List showed conclusively that economics was national and historical. Measures that were right for one economy might be wrong for another. What was true for an island like England did not necessarily apply to the United States, where the amount

of land seemed unlimited. Unlike the situation on the island nations of England and Ireland, labor was strong in America because land was abundant and not politically controlled by the landlords, who could use scarcity of land as a weapon against the disenfranchised. As Henry George pointed out later in the 19th century, land was the key to keeping labor weak.

List understood the economic circumstances in America better than anyone writing in his day, but he generalized from those experiences in a way that blinded him once again to the importance of labor. Because of the amount of virgin land waiting to be cultivated in America and the relatively small labor force available to accomplish that task, wages in America were higher than in Europe. So List felt wages would take care of themselves if manufactures were protected by tariffs. Henderson claims that "List failed to mention that the factory workers of the 1830s had to work long hours for low wages."⁵ Even though he repudiated the English system, List still manifested "invisible hand" thinking when it came to labor. The labor situation, however, would only worsen with time, because the workers:

had no security of employment and risked losing their jobs whenever there was slump in trade. For them there was little hope of the good life in factory towns that List had promised them. The idyllic existence of the urban industrial workers was a figment of List's imagination and bore little resemblance to the harsh reality of life in a factory town at that time.⁶

The labor problem was essentially a moral problem, and it would not solve itself through self-regulating mechanisms like the so-called iron law of wages or by tariffs. The iron law of wages came about by treating wages like a commodity and ignoring the moral obligation implicit in the notion of a just wage. Henry Ford was one of the few people who understood that the capitalist class had a moral obligation to set wages higher than were determined by the iron law. He also understood the economic benefits which accrued from the high wages which enabled the worker to buy the products he produced.

Endnotes

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- 39 Hirst, pp. 168-9.
- 40 Hirst, p. 194.
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- 46 Ibid.

Chapter Seventy-One

Andrew Jackson and the Monster Bank

In 1828 Andrew Jackson was elected president of the United States. Jackson had become a national hero in 1814 when he defeated the army that had defeated Napoleon with a group of volunteers from Tennessee and Kentucky at the Battle of New Orleans.

Andrew Jackson had been a fighter for his entire life. William Cobbett referred to Jackson as “the bravest man and greatest man now living in this world, or that ever has lived in this world, as far as my knowledge extends.”¹ From the time he stood up as a boy soldier to a British officer who ordered him to clean his boots, Jackson had ample opportunity to exhibit his bravery. He fought the Creek Indians in western Tennessee and the Seminoles in Florida and he vanquished the mighty English army at the Battle of New Orleans, but, according to Cobbett, these battles were only preliminary skirmishes in preparation for the great battle of his life, one in which “he had to deal with a monster more formidable, and more destructive to the people than either the British or the savages, a monster perfectly insatiable, hypocritical as the crocodile, delusive as the siren, and deadly as the rattlesnake,” namely, “The monster of paper money.”²

The “monster of paper money” had its lair at the Second Bank of the United States. By the end of his first year in office, Jackson publicly accused the bank of lacking constitutional legitimacy and failing to produce a stable national currency. Privately, he characterized the Bank as a corrupt institution, dangerous to American liberties.³

Jackson had acquired a hatred of paper money because of his involvement in land speculation. By the time Tennessee entered the Union as a state in 1796, Jackson was an upper class land owner with extensive holdings. “The secret of his prosperity,” wrote an early biographer, “was that he acquired large tracts when large tracts could be bought for a horse or a cow bell, and held them till the torrent of emigration made them valuable.”⁴

Jackson was in the same position that the landed gentry in England were in at the time of the founding of the Bank of England. Jackson was rich in land but poor in cash. In order to develop his land, he needed to borrow money. In 1795 Jackson traveled to Philadelphia to sell some 68,000 acres of land which he held jointly with a number of business partners. He found a buyer in David Allison, a speculator who bought Jackson’s Tennessee lands at \$.20 per acre and paid for them with promissory notes.⁵ Jackson

then took the notes and purchased supplies from the firm of Meeker, Cochran and Company to open a trading post in Tennessee.

In the fall of 1797 Allison filed for bankruptcy and the notes Jackson held became worthless. Jackson was now responsible for the notes and had to pay back Meeker, Cochran and Company for the supplies he had bought from them. To do this, Jackson traded his store for 33,000 acres of land, which he then sold for 25 cents an acre to William Blount, a wealthy friend. But at this point, the same thing happened all over again. Blount, who was involved with Allison, was suddenly insolvent and his notes were worthless now too. Before Allison died in debtor's prison, he mortgaged the land he had bought from Jackson to another speculator by the name of Nicholas Pryor. When Pryor got caught in the same credit squeeze, Jackson "realized that he was liable to suit from those to whom he had sold the land—and not for its original price but for its current value."⁶

Jackson's dealings in the Allison affair left a permanent scar on his psyche. Remini claims that "his own personal debacle that forever prejudiced him against debts and paper money—and against the people and institutions that manipulated them for profit."⁷ The suspicion that Jackson didn't really understand the system that he hated deepens in light of a conversation he had with his arch-foe Nicholas Biddle, president of the Second Bank of the United States, years later when he claimed that his knowledge of the banking sector derived from reading a history of the South Sea Bubble.⁸

Jackson's critics have rightly pointed out that everything he accused the Bank of the United States of doing was *a fortiori* applicable to the local banks that sprang up after the BUS had been killed, but this meant little to Jackson. Jackson drew deeply from the shallow well of his own experience (an experience which many westerners shared) and concluded not only that land speculation was evil but that paper was "the instrument of the swindler and the cheat."⁹ Honest men dealt in hard money. Specie "was the only legitimate money," and "anything else was a fraud to steal from honest men."¹⁰ Jackson:

preferred a financial system in which the government placed its funds in a government treasury, dealt solely in gold and silver and demanded specie for the payment of taxes. Persuasive support for his conservative views came in 1833 with the publication of a popular book by a Philadelphia economist, William Gouge. *The Short History of Paper Money and Banking in the United States* . . . advocated the retirement of bank notes of high denomination, thus replacing paper with specie in ordinary business transactions.¹¹

The bi-metallic system that Jackson and other "hard-money" men advocated so passionately, never worked efficiently. There were two reasons for this: first, as a consequence of the inaccurate appraisal in 1792 of the market ratio between gold and silver, and second because specie had to

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compete with the less expensive and more readily available forms of bank credit money that businessmen preferred. Thus a variety of paper circulated as money, most of it bank notes.¹²

Jackson's support of "hard money" put him solidly in the camp of the Whig oligarchs who had fashioned the United States Constitution to favor the interests of creditors. Drawing political support from western landowners while at the same time opposing the paper money they had always favored was a contradiction which emerged quite spontaneously and yet inevitably from the contradictions at the heart of the American system, which favored manufacturing without protecting labor and favored a national bank with no concern about who was going to end up ultimately paying the interest it would charge. Jackson's constituency favored both paper and speculation, but they knew that somehow they always ended up getting cheated by the banks that made these practices possible, and so both Jackson and his western supporters focused their ire on the instrument rather than the system of usury which was the power which wielded the instrument. Dogs, Heraclitus once remarked, bark at what they don't understand. Jackson's animosity against "paper" could be explained in much the same way:

What worried most men living near the frontier was that banks somehow or other made money out of nothing, and that they always seemed to be doing it for the benefit of "Easterners," "aristocrats," and "foreigners."¹³

As Shylock made clear to Antonio in the Merchant of Venice, there is only one way to make money "out of nothing," and that is usury. In order to get to the root of the evil at the heart of the banking system, Jackson and his supporters would have needed expertise in a vocabulary and a grammar of moral discourse which neither of the contending parties in the United States possessed. As a result, what started off as a decision to let the bank die a natural death when its charter expired soon escalated into a life and death struggle. "The bank, Mr. Van Buren, is trying to kill me," Jackson said to his vice-president. Then pressing Van Buren's hand very tightly, he added, "but I will kill it."¹⁴ Cobbett used the word "monster" to describe the Second Bank's paper money because that is word Jackson himself used. The Bank of the United States, was in his words:

a "monster," a "hydra-headed" monster, a monster equipped with horns, hoofs and tail and so dangerous that it impaired "the morals of our people," corrupted "our statesmen," and threatened "our liberty." It bought up "members of Congress by the dozen," he ranted, subverted the "electoral process" and sought "to destroy our republican institutions. . . ."¹⁵

The fact that Jackson called the bank a monster has often perplexed later commentators, who claimed that Jackson "commented on an aspect of the banking structure [i.e., paper money] without comprehending its

significance.”¹⁶ Marvin Meyers claimed that “the Bank was called a Monster by Jacksonians. A monster is an unnatural thing, its acts are out of reason, and its threats cannot be estimated in ordinary practical terms.” As a result, “The effort to destroy the Monster Bank and its vicious brood—privileged corporations, paper money—enlisted moral passions in a drama of social justice and self-justification.”¹⁷

What Meyers failed to mention is that usury is, as Ezra Pound would have put it, *contra naturam*, and, therefore, by its very nature monstrous. Far from being a mysterious lapse into incoherence, Jackson’s repeated use of the word “monster” is the key which unlocks the door to understanding his stake in this fight. A monster is something unnatural. Usury is monstrous because it is *contra naturam*. The bank war of the 1830s arose because neither Andrew Jackson nor his opponent Nicholas Biddle could articulate the real issue which had plagued the American System from its inception in the mind of Alexander Hamilton, namely, usury. The American System came into being when the creditors triumphed over the debtors and made the enforcement of usurious contracts a “sacred principle.” Jackson made the mistake of blaming paper money for the problems that usury caused.

The fact that List had the Readinger Adler endorse Jackson for president was far from insignificant because by the time he endorsed him during the election of 1828, List “had emerged from the obscurity of the editorial office of a local newspaper”¹⁸ and was recognized as an authority on fiscal policy and a leading champion of the policy of protection by the public at large as well as by leading statesmen like Henry Clay and James Madison. In 1828, when a report of the a committee of the House of Representatives supported free trade, Ingersoll turned to List as the expert best qualified man to write a reply.

Having a central bank, modeled on the Bank of England, was an essential part of Alexander Hamilton’s American System. List’s endorsement of Jackson, therefore, put him at odds with Henry Clay, the man then known as the father of the American System. The looming battle over the bank was a sign that the American System was coming apart because of its own unresolved internal contradictions.

The history of the Bank of the United States was every bit as tempestuous as the life of Andrew Jackson. The first Bank was chartered for 20 years in 1791 with a capital stock of \$10 million, four fifths of which came from private investors. The remaining fifth came from the tax revenues of the United States government. The board of directors was elected by the stockholders and five seats assigned to government appointees.¹⁹ The charter of the First Bank of the United States was allowed to expire in 1811 because of the lobbying of nearly 100 state banks but also out of fear of the consequences of private ownership of the Bank’s stock.²⁰ This fear gave

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covert expression to the animus which the Bank of England generated for its entire existence. If the national debt were privately owned, a small minority of the nation's citizens would enrich themselves at the expense of the majority. This conclusion flowed inexorably from the workings of compound interest, creating, as Cobbett put it, a faction of tax-eaters who were permanently at odds with the majority faction of tax-payers, who became progressively more impoverished by the tax burden needed to pay off increasingly monstrous interest payments.

State-sponsored usury, in other words, invariably generated civil conflict. The founding fathers hoped to forestall the worst effects of this conflict through a government which played one faction off against another, but the revolutions which surrounded the time period when the Constitution was adopted belied this attempt. Having learned a political lesson from the history of the Bank of England, the founding fathers threw a sop to the masses by allowing the government to appoint five board members. Unlike the Bank of England, which was totally privately owned, the Bank of the United States was created to allow the government a stake in its operations. It was this stake that gave Andrew Jackson his leverage.

The Bank of England, Hamilton's model for the Bank of the United States, was created to finance wars, and the War of 1812, occurring one year after the first bank's charter expired, and the financial disasters which flowed from fighting a war without a central bank, convinced the founding fathers that a Second Bank of the United States was needed, and so President James Madison signed a bill on May 10, 1816 bringing it back into existence. Like the First BUS, the government had a 20 percent stake in the Second BUS. This element of government oversight, however, did nothing to prevent the wretched excess that characterized the American banking system.

After bringing the Second BUS into being, Madison made the mistake of appointing Naval Captain William Jones its first president. Like the proverbial drunken sailor, Jones allowed the Bank to engage in all of the abuses which had given banks such a bad name. Jones, who had gone through bankruptcy proceedings shortly before being appointed the bank's president, quickly involved the bank in all of the behaviors that had gotten him into financial trouble as a private citizen. He speculated on the bank's stock, but more importantly he committed the besetting sin of all bank presidents; he abused the principle of fractional reserve and overextended credit, decisions which lead first to inflation and then panic. Alarmed by Jones's reckless behavior, Congress called for an investigation, which caused the Bank's stock to plummet and eventually forced him to resign.

Congress responded by appointing former South Carolina Congressman and Speaker of the House of Representatives Langdon Cheves as the

second president of the Second BUS. Once in office, Cheves promptly erred in the opposite direction when he called in all the bad loans that Jones had made and precipitated the crash of 1819. This is precisely what Piero the Gouty had done after the death of his father Cosimo de Medici in Florence roughly four hundred years before. If anyone had learned anything about banking in the interim, the news hadn't reached financial circles in the United States. The financial medicine which Dr. Cheves prescribed was strong indeed, so strong that it killed the patient in the act of curing him:

To restore the bank to financial soundness, loans were called in and mortgages were foreclosed. The notes of state banks in all parts of the country were gathered and presented for payment—in specie. Since many of these banks had overspeculated through the encouragement of the BUS and were without gold or silver, they could not meet their obligations and so slid into bankruptcy, ruining many investors at the same time. The resulting depression brought a price collapse, unemployment, and in some areas, starvation. Although this panic was part of a worldwide shock, it was precipitated in the US by the actions of the Bank, actions stemming from its own mismanagement.²¹

As a result of the chaos which the bank's imprudent behavior unleashed, 14 states passed stay laws to prevent it from collecting its debts.²² State banks were commissioned to issue paper money—Kentucky printing \$3 million worth—to keep the local economy from freezing up. Because of its reckless expansion and contraction of the money supply, the Bank of the United States “had earned widespread hatred and fear throughout a substantial part of the nation” by the time of Andrew Jackson's first and unsuccessful run for the presidency in 1824.²³

On January 7, 1823, Nicholas Biddle replaced Langdon Cheves as president of the Second Bank of the United States. Biddle was the 37-year-old scion of one of Philadelphia's most distinguished families. He was strikingly handsome as well as aristocratic in bearing and the beneficiary of an education at Princeton University, which built upon the foundation of courtly manners and native intelligence which his family provided. Biddle was elected to the lower house of the Pennsylvania legislature in 1810, where he acquired a sophisticated understanding of the operation of the Bank of the United States as well as an enduring fascination with the functioning of the economy.²⁴ He was also unfortunately “impossibly arrogant” and vain, pretending “to be an expert in many things when all along he only seemed to be an expert, which was what he really cared about.”²⁵

In spite of his shortcomings, Biddle single-handedly rehabilitated an institution whose wretched excess in dealing with the economy had alienated a large portion of the American public. He transformed the Second Bank of the United States into a genuine central bank by reining in the reckless issue of notes that had plagued banking in America from its in-

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ception. By demanding specie payments from commercial banks in areas where paper money was notoriously depreciated, Biddle succeeded in providing the nation with a safe and uniform currency. Biddle increased the money supply by printing \$20 notes which remained in circulation because they were only redeemable in cities which were far removed from the cities where they were issued. This expansion of the money supply helped create infrastructure projects crucial to the settlement of the western lands. Projects like the Erie Canal also drew foreign capital to the United States at a time when English and European investors had become disillusioned with South America because of the many defaults there. Under Biddle's direction, the Second Bank prospered, and the country benefited from its policies.²⁶ By the time Jackson took office after the election of 1828, Biddle had created "a remarkably efficient central banking system," which "handled 20 percent of the country's loans; its note circulation came to \$21 million, which was about one-fifth of the nation's total, and it held one-third of the total bank deposits and specie."²⁷

The fact that the BUS was a colossus, "entrenched in the nation's economy, possessing the means of draining specie from state banks at will and regulating the currency according to its own estimate of the nation's needs,"²⁸ and a fairly successful colossus as well, which enjoyed support from all classes and groups,²⁹ meant nothing to Andrew Jackson who, as a result of the Allison affair, had sworn revenge on a financial system he never understood, but the immediate cause of Jackson's hostility was his suspicion that the BUS, which he characterized as "a vast electioneering engine,"³⁰ had used bank money—which is to say, the money of the people of the United States—in an attempt to defeat him in the election of 1828. In addition to being vindictive, Andrew Jackson had an acute sense of what was politically possible and what was not. As a result, he entered office ill-disposed toward the bank but amenable to suggestions. That amenability disappeared when Biddle responded disproportionately to Jackson's attack. When Biddle retaliated by cutting off credit and calling in loans and creating financial panic, he unwittingly substantiated all of the claims that Jackson had been making for years, and public opinion started to slide inexorably in Jackson's direction.³¹ By calling down economic Armageddon on the entire country, Biddle played right into Jackson's hands.

Endnotes

1 William Cobbett, *Life of Andrew Jackson* (New York: Harper & Brothers, 1834), p. i.

2 Cobbett, *Andrew Jackson*, pp. Vi-vii.

3 "Second Bank of the United States," *Wikipedia*, http://en.wikipedia.org/wiki/Second_Bank_of_the_United_States.

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- 4 Robert V. Remini, *Andrew Jackson and the Bank War* (New York: W.W. Norton & Company, 1967), p. 16.
- 5 Remini, p. 18.
- 6 Remini, p. 19.
- 7 Remini, p. 20.
- 8 Ibid.: "I do not dislike your bank any more than all banks. But ever since I read the history of the South Sea Bubble I have been afraid of banks."
- 9 Remini, p. 19.
- 10 Ibid.
- 11 Remini, p. 25.
- 12 Ibid.
- 13 Remini, p. 20.
- 14 Remini, p. 16.
- 15 Remini, p. 15.
- 16 Peter Temin, *The Jacksonian Economy* (New York: W.W. Norton & Company, 1969), p. 42.
- 17 Temin, p. 44.
- 18 W.O. Henderson, *Friedrich List: Economist and Visionary 1789-1846*, (London: Frank Cass, 1983), p. 70.
- 19 Remini, p. 24.
- 20 Remini, p.26.
- 21 Remini, pp. 27-8.
- 22 Remini, p. 28.
- 23 Remini, p. 32.
- 24 Remini, p. 33.
- 25 Remini, p. 34.
- 26 Remini, p. 39.
- 27 Ibid.
- 28 Ibid.
- 29 Remini, p. 40.
- 30 Remini, p. 44.
- 31 Remini, p. 46.

Chapter Seventy-Two

The Panic of 1837

On March 3, 1837, Jackson left the White House confident that he had achieved his mission. The “monster bank” had been slain. In slaying it Jackson had incurred the odium of the bankers, but that only meant that he was “adored by the people as the defender and savior of the constitution” and that he could retire “to his home at the Hermitage, carrying with him into his retirement the hearts of the people to a degree that no man, since Washington, had possessed them.”¹

The era of good feeling surrounding Jackson’s departure to retirement in Tennessee was destined to be short-lived. In fact, symptoms of financial distress had become apparent before he left office. There were food riots in New York in February, and there was pressure on the money markets because interest rates on short-term loans had reached 24 percent per annum. Reports of businesses failing increased in frequency after Martin van Buren took office on March 4. At the beginning of April, panic seized the public, which began to demand specie in exchange for their bank notes. By May 10, the pressure on the financial system had become too great to bear, and banks in New York suspended payment, an action which soon became national in scope.²

Beginning with Nicholas Biddle, Jackson’s enemies have claimed that his actions were responsible for the crash of 1837. Critics claimed that the Specie Circular caused specie to migrate to the West, creating shortages in the east which led to contraction and collapse, but Temin, who claims there is no evidence of this, dismisses the charges against Jackson as unfounded:

The Specie Circular and the distribution of the surplus thus did not cause the Panic of 1837. Just as the veto of the Second Bank in 1832 cannot be held responsible for the inflation before 1836, the policies adopted in 1836 cannot be held responsible for the crisis that ended it.³

But in the process of exonerating Jackson of one offense, Temin in effect indicts him for another. Temin lets Jackson off the hook in terms of personal responsibility, but he implicates the system that Jackson was promoting. Temin concedes this offhandedly when he writes that: “The Specie Circular . . . may have helped to induce the Bank of England to act as it did. . . . Due to its effect on people’s minds—not their finances.”⁴

Temin claims that the crash of 1837 began in 1836 when the Bank of England became alarmed at the decline in its specie reserves and re-

sponded to the outflow of gold by raising its discount rate from 4 percent in June to 5 percent in August. According to the time-honored principles of the gold standard, the Bank of England and its affiliates had to contract the money supply in order to compensate for the gold drain, which caused Baring Brothers, one of the principals in the American trade, to cut the amount of credit it offered in half.⁵ Curtailing credit meant in effect calling in loans, with results which had been predictable for centuries. With credit cut by half, trade slowed, and when trade slowed, demand fell, and when demand fell, prices dropped. America's main export at this point was cotton, so the contraction of credit in England communicated itself to the United States as a fall in the price of cotton at the start of 1837. Once prices fell, bills drawn on goods previously exported became at first hard to sell and finally in the month before the actual panic unsalable. The Crash of 1837, in other words, "derived from international—not domestic—conditions."⁶

The fall in the price of cotton was one of the principal ways in which the pressure exerted by the Bank of England on the English financial market was communicated to the United States. As a result of this fall, debts secured by cotton became uncollectible, merchants holding such debt failed, banks found their assets illusory or at least illiquid, and they refused to honor their liabilities. In short, they suspended payment. The restrictions of the Bank of England bear much of the responsibility for the suspension.⁷

Businesses first began to fail in New Orleans, showing the crucial role which the fall in cotton prices played in the Panic of 1837, but the ultimate cause of the crisis was a contraction of foreign credit which because of concern about specie reserves. This means, of course, that Jackson's Specie Circular did contribute to the Panic of 1837 by casting doubt on the value of the enormous issue of paper money which his destruction of the BUS brought about. The fundamental cause of the Panic of 1837 was the role which gold played in the international economy. There was a psychological element, but the cause of this disease was iatrogenic. Specie was the medicine which created the financial equivalent of a heart attack in the patient Jackson hoped to cure.

When their rivals the Baring Brothers decided to cut their credit to America in half, the Rothschilds sensed that "an irresistibly tempting opportunity had arisen,"⁸ and they sent their agent Auguste Belmont (né Schoenberg) to New York to capitalize on it.⁹ Nicholas Biddle, who had re-established the Second Bank of the United States as a corporation of the state of Pennsylvania, had promised the Rothschilds "a business with a guarantee of two million pounds sterling to provide advances for the goods and stocks," as well as a quasi-monopoly on cotton exports. James Rothschild couldn't resist and jumped into the American market with both feet.¹⁰

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Jewish predatory lending was predicated on an ability to lend in times of economic expansion and then, when the economy inevitably contracted when too much money had been loaned out, buying up assets for pennies on the dollar. Generally, that meant hard assets like real estate or the objects Jews accumulated in their pawn shops, but in this instance, the Rothschilds, awed by Nicholas Biddle's upper class charm, bought up large quantities of American state bonds as well as a number of new banks and a canal,¹¹ in short, largely paper assets at precisely the moment when they were about to depreciate because of the credit crunch which caused the Panic of 1837.

By 1839, it was obvious that the Rothschilds had made a big mistake when they supplanted Baring Brothers in the American market. On March 30, 1839, Biddle resigned as president of the bank claiming that "the affairs of the institution were in a state of great prosperity, and no longer needed his services."¹² Biddle was later indicted on charges of conspiring to defraud the stockholders of the bank but set free on a technicality.¹³ On October 9, the BUS "repudiated its contracts under the name of another suspension of specie payments, closing its doors against its creditors,"¹⁴ and in 1841 it finally collapsed, leaving the London and Paris branches of the House of Rothschild saddled with "a large quantity of thoroughly bad debts."¹⁵

James attempted to have the federal government assume responsibility for the states' debt, but at this point in US history there was no Ben Bernanke and no Federal Reserve to buy back toxic assets, and so James had to swallow his losses, which he did gracelessly, berating representatives of the US treasury, who were informed that they were dealing with "the man who is the head of the finances in Europe and he has told you you cannot borrow a dollar, not a dollar."¹⁶

James ended up wishing that he had never become involved with American finance and vowed that he would not do so again unless the federal government were prepared to guarantee the debts of the states via an officially backed central bank. His nephew Anthony concurred, urging his brothers to sell "New Yorks & all the [American] stocks which pay any interest"¹⁷ and "get rid of that blasted country—as much as we profitably can. It is the most blasted & the most stinking country in the world—& we must get rid of it, & that stinking Belmont in the Bargain."¹⁸

Because the American states defaulted on their bonds, capital stopped flowing into American markets. As a result tax revenues declined, and in order to make up the shortfall, the federal government raised its tariff in 1842.¹⁹ The tariff was the silver lining in the default cloud because it brought America out of the recession, just as List had predicted it would. Temin concedes that "from the standpoint of modern fiscal policy, this was the exact wrong thing to do,"²⁰ but then he concedes that "the recovery began at

about the same time as the new tariff took effect, and commentators—then and now—have seen this as a causal relation.”²¹ One of those commentators was surely Friedrich List.

Friedrich List was also one of the people who held Andrew Jackson responsible for the Panic of 1837. By 1837, Philadelphia was consuming so much coal that water transport was no longer adequate. List and his partner Hiester were planning to extend the railway that connected the pit head and Port Carbon all the way to Philadelphia. Hiester suggested that they lease their coal mines to pay for the construction of the new section of railroad, but all of their plans came to naught during the Panic of 1837 when Thomas Biddle & Co. went bankrupt because of, in List’s words, “General Jackson’s insane banking policy.”²² Henderson demurs, claiming that “List had only himself to blame for his misfortunes”²³ because he had used the shares in his railroad and coal company as collateral for more loans. If List had “retained control over his shares in the Little Schuylkill Navigation, Railroad and Coal Company, he would have been a rich man,”²⁴ but the exigencies of the banking system in America made this virtually impossible.

Every business was dependent on a line of credit, and every line of credit demanded collateral. When the Bank of England curtailed credit in 1836, it created a ripple effect through the entire economy of the United States forcing fledgling infrastructure projects like the Little Schuylkill Railroad to the wall. Those, like Hiester and List, who were developing a resource the bulk of whose earnings were to be collected in the future were especially vulnerable. Once they could attain a secure position in supplying Philadelphia’s energy needs, their financial future was secure, but in order to do that they needed a secure line of credit because of the nature of their venture. Unlike speculators, who could get in and out of the market overnight, it took time to build infrastructure like a railroad, especially since no one had ever built one before. In order to do that, List needed a secure line of credit, but credit was constantly being interrupted during the periodic contractions that inevitably followed too much lending and money printing during the boom phase of the cycles that characterized the American economy, and so List and Hiester and Thomas Biddle & Co. lost everything when List’s American venture got caught in the credit squeeze that caused the panic of 1837. In his letters to Ingersoll, List claimed that the chaos in the American banking system was the result of dependence on foreign markets. Since just about every loan used land as collateral, “our present banking system . . . stands, rises, and falls with the price of land and property.” According to List, the real value of the land depended upon its market value, but the market value depended on the value of its produce. As the result, “the price of land and the possibility of converting it into money, rises and falls with the price of the produce.”²⁵ The role of govern-

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ment in the national system of economy is to prevent price fluctuation and this "can only be attained by securing the home market to the products by [creating and maintaining] a manufacturing industry."²⁶ The manufacturing industry in relatively undeveloped countries like the United States and the German Federation could only secure the home market if protected by a tariff; therefore, the tariff was the solution to America's banking problem:

Had the United States Government, immediately after the last war [i.e., the War of 1812], protected manufacturing industry, wheat, wages, land prices, profits would never have sunk so low; banks would never have been ruined; not the tenth part of the citizens would have been expelled from house and home.

The chaos in the banking sector was, according to List, only epiphenomenal:

This distress of so many land proprietors arose not chiefly from the bank mania, as it was generally believed, but from a revolution in the prices of produce and land caused by the dependence on foreign markets, foreign fluctuations of prices, foreign regulations and restrictions.²⁷

If prices for agricultural products remained steady, the farmer could pay off his loans, thereby assuring the creditor a return on his investment, thereby making him less likely to call in his loans, something which invariably caused the economy to crash and prices to drop, creating the vicious cycle of debt deflation:

The owner of a mortgage, trusting to the steadiness of grain prices and land prices, was not anxious to recover his money and even if he wanted money, he asked rarely the debtor for it; he could effect this easier by selling his paper to capitalists who desired to empty their money and had confidence in the security. But with the moment of what was called restauration, with the moment of free trade, by which free trade the English were allowed to destroy the German manufactures by importing their manufactures, and destroy the landed interest of Germany by prohibiting the importation of German grain and wool in their country, by corn and woolen bills, the prices of land and of property sank, the confidence in the paper was lost, as well as the possibility of recovering the money by selling the property and the same ruin of the majority of the farmers followed, like in this country.²⁸

List wrote those prophetic words in 1826, ten years before the Panic of 1837. History would prove him right. The main cause of the Panic of 1837 was a precipitous drop in the price of cotton, but there were other causes which List did not mention. The price of land is also influenced by speculative bubbles, which are a function of debt availability. This means that money (easy debt) can push up prices (speculatively) past its anchoring underlying value supported by rental/productivity potential. When that genie is free the bank multiplier effect increases money supply no longer linked to specie but to land value. Since land values in speculative environments

are illusory, they can fall as easily. When debt is used the land value can disappear but the debt remains. In that environment even with monetary contraction, cashed up vultures (who were shortly before cashed up usurers) can get assests for pennies in the dollar.

Unfortunately, because of his commitment to the tariff as the panacea for all economic ills, List was unable to follow the chain of economic causality back to its unmoved mover in the moral law. The precipitous drop in the price of cotton was the immediate cause of the Panic of 1837, but that drop came about because of a contraction of credit in England, which came about because the Bank of England was worried about a drain in its gold and silver reserves. So, in some sense, the ultimate villain in this scenario was the gold standard. Because gold was the only medium of international exchange at the time, it was synonymous with foreign trade. As a result, the gold standard created a problem which knew no national boundaries and so was not amenable to solution by tariff.

List was correct in assuming that the panic had its source in England, but the usury banking system combined with the gold standard would have caused the same problems even if the American banking system had no contact with England. The ultimate problem was moral, and it came about as a result of the interaction between the usury burden and the *auri sacri fames*, the accursed lust for gold. Once debt reached a certain level, the people who controlled the economy—e.g., institutions like the Bank of England—made the protection of their hoard of gold and silver their first priority, and once they did this everyone down the line did the same thing. At this point they called in loans and/or asked for payment in specie, when specie, through the multiplier effect which fractional reserve banking enabled, had created 10 (or four or three)²⁹ times the amount of debt for which there was specie to repay it. Once loans were called in for payment in specie, the money which the banking system had created disappeared because paper money, which was in fact credit and needed time to be converted into real wealth, far exceeded the amount of specie which had engendered it; loans could not in fact be repaid on those terms, i.e., as specie. Once this became common knowledge, panic ensued, and the economy collapsed into a pile of bad debts. Because List's line of credit was shorter than the amount of time that he needed to create the infrastructure that would allow a steady stream of income, money could not make sufficient contact with labor, and as a result value was not created.

Once the process of converting credit into tangible assets (or value) through the application of human labor was interrupted on the macroeconomic scale, the economy froze up, and the assets which had accrued but were not actualized by production were lost forever. This is precisely what happened to List's coal mine and railroad. If his company had made the

connection between the coal mine in Tamaqua and the market in Philadelphia before credit had been disrupted, the company would have survived. List and Hiester never got that far; the amount of time between when credit started flowing after the last contraction and when it froze up again after overextension was too short to allow the construction of complicated infrastructure projects. In addition, the United States had to finance its infrastructure projects by mortgaging its land, whose value was dependent on the price of agricultural products, whose price tended to decline over time because of overproduction.

As of the 1820s and 1830s, cotton was by far America's main export, and England was its main customer. Exporting cotton to England, however, was a self-defeating operation because the more cotton the South produced the more the price went down. So, "Two and a half pounds [of cotton] brought consequently in 1826 just as much as one pound in 1816 because Europe could not digest the number of cotton bales which the Southern States gave her to swallow."³⁰ List's solution was a prohibitive tariff on cheap English cotton cloth combined with the creation of textile mills in the South, which would create cloth destined for the domestic market. Unfortunately, in blocking the importation of cheap English cotton cloth, List forgot to block the importation of the English contempt for human labor which accompanied it as well. Taking his cue from Alexander Hamilton's report on manufactures, List felt that Negro slaves could be turned into factory workers—"what else can the Southern States do with their slaves in a profitable manner?"³¹—who could produce coarse cotton cloth suitable for the domestic market. They could be aided by women and children: "spinning mills . . . could turn the labor of the females and of the children who are now of very little use to them to a better account."³² List shared the prejudices Hamilton (whose *Report on Manufactures* he is quoting almost verbatim) which doomed American manufacturing to over a century of increasingly bloody conflict. List's thinking on labor would mature by the time he wrote his magnum opus in 1841, but by making labor (and the usurious banking system) epiphenomena of the tariff, he created a moral vacuum which opened the door for the Manchester School's Iron Law of Wages³³ on the one hand and Karl Marx's attack and the rise of Communism on the other.

List learned about the financial demise of his American venture while in Leipzig, where he had been working as both American consul and railway consultant. The crowning achievement of his years in Leipzig came in the same year he learned about the collapse of his railroad venture in America, when the first section of the first railroad in Germany, one that would eventually connect Leipzig with Dresden, opened on April 24, 1837. List's career as a railroad builder in Germany would end as unhappily as

his career building railroads in America. By August of 1837, List had left for France bitterly disillusioned being cheated out of the credit for the railroad he had created as well as any financial remuneration commensurate with that achievement. After sinking 15,000 thalers of his own money into the project, all that List had to show for his efforts was a gilded silver goblet from the merchants of Leipzig and 4,000 thalers in pay.³⁴

List turned his attention once more to France, and translating the proposals he had made to Baden and Saxony into French, he approached Louis Philippe with a plan to build "*un systeme des chemins de fer en combination avec du papier monnaie et de banque dit joint stock banks.*"³⁵

The inclusion of banks in his proposal to the French king indicated the bitter financial lessons which List had learned in America, where the financial system was in a perennial state of chaos, and in Germany, where it was controlled by the Jews. Once he started writing articles for the Francophone press, List's attention was drawn to Belgium, which in spite of diminutive size, "was building a railway network more rapidly than any other country on the continent."³⁶ List's public praise for Belgium's efforts in stimulating manufacturing and her king as "a veritable king of industry" earned him an invitation to attend the opening of the Malines-Liege railway in 1837.³⁷

List returned from Belgium with a letter of Introduction to Louis Philippe from King Leopold. List, who made a habit of making personal contact with the rulers of Europe, presented two proposals to Louis Philippe, one on the construction of French railroads and the second on how to create a bank to finance their construction. Like John Law in France and Christian Struensee in Denmark, List went to France ready to cut the Gordian knot of railway construction with a financial sword of his own making. His venture was twice as bold as anything he predecessors had attempted, but unfortunately it came to nothing.

When List heard that the French Academy of Moral and Political Sciences had organized a contest for an essay on how to reconcile the interests of producers and consumers while establishing greater freedom of trade, he jumped at the opportunity to put down on paper what he had learned from over 20 years' experience in promoting the *Zollverein*, the American system, and railroads. The French, however, were underwhelmed by List's efforts, perhaps because his defense of protectionism proved a disappointment to judges intent on "establishing greater freedom of trade." List didn't win the prize, even though his essay was singled out along with two other "*ouvrages remarquables*"³⁸ that failed to win as well.

Disappointed once again, List returned to Germany, where he continued to work as a poorly paid consultant on railway construction who tried to supplement his meagre salary with his writing. List's situation changed

dramatically, however, when his French essay was translated into German in 1841 as *Das Nationale System der Politischen Oekonomie*. The book that would become List's *magnum opus* became an instant classic in the field of economics and the first major breakthrough in that science since the publication of Smith's *Wealth of Nations*. It also "established the reputation of the author as a leading economist and the champion of the policy of protection," who "believed that the state had a vitally important part to play in promoting economic growth."³⁹ Unlike the followers of Adam Smith, List felt that only the state was powerful enough to rein in cosmopolitan capitalism by "levying high import duties" so that the state could "save 'infant industries' from being strangled at birth by competition from more advanced industrial countries."⁴⁰

List's rehabilitation of the state, which derived from his understanding of Fichte, set him clearly apart from the English school of classical economics, which was busy refining the principles which it had inherited from Smith to their *reductio ad absurdum*, declaring that the "nation" was an ignis fatuus which had no real existence in reality. The nation, according to Cooper, was "merely a grammatical invention, designed to spare periphrases, a nonentity, a thing that has no existence except in the brains of political men."⁴¹

Classical Economics, which List refers to as "the School," was fatally flawed because it ignored the role which the nation played in economic life. In addition to that:

The School admits no distinction between nations which have reached a superior degree of economical development, and those which yet occupy a lower scale. It excludes everywhere the interference of the State; for every individual must be capable of production in proportion as government leaves him to his own resources. If that doctrine be true, the most active and the richest producers of the globe should be the savages, for nowhere is individual liberty greater, nowhere is the intervention of government less than in the savage state.⁴²

List makes use of Thomas Cooper again in attacking English individualism. Cooper claimed that: "the wealth of society is nothing else than the agglomeration of the wealth of all the individuals, and if every one knows better than any one else his own interest, the richest nation must be that in which each individual is left most entirely to himself."⁴³ Taking his own individualist premises to their logically absurd conclusion, Cooper claimed that no "maritime commerce was worth a maritime war"⁴⁴ and that merchants should protect their own ships on the high seas, presumably by the creation of a private navy. List rebutted classical Anglo individualism by claiming that:

Robbers, thieves, smugglers and swindlers know perfectly well their own business, and devote themselves with vigilant attention to their own concerns as

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they understand them, but it does not follow thence that society is prosperous in proportion as such individuals are less hindered in the pursuit of their private industry.⁴⁵

The state is necessary because government “far from doing anything which individuals could do better . . . does that which individuals cannot do at all, whatever their intelligence and enterprise and however abundant their capital may be.”⁴⁶

Liberty, the other metaphysical pillar of English capitalism, was “desirable only so far as it is not inconsistent with the public good; so private industry can reasonably claim an unrestrained liberty of action only to the extent that such action is consistent with the general prosperity of a nation. But if this free action of individuals is useless or positively hurtful to the public, the nation has the right to turn its lost industry, this wasted power, to the support of the collective power of the country.”⁴⁷ Liberty needs to be subordinated to national unity because:

National unity is an essential condition of durable prosperity; we have shown that only where private interest has been subordinate to public interest, and where a succession of generations has pursued one object, have nations attained an harmonious development of their productive power, that without the collective labors of the individuals of not merely one generation, but even of successive generations toward a common end, private industry cannot flourish.⁴⁸

List’s book appeared just four years before the repeal of the corn laws in 1845, an event which signalled the total triumph of free trade in the Anglosphere. Intoxicated by their victory, Smith’s Manchester School epigoni threw all caution (as well as Smith’s willingness to temper theory with empirical observation) to the winds and created a system of economic dogma whose rigidity would have made Pope Pius IX blush.

That dogmatic system persists to this day, and its devotees trot out the same platitudes that List exploded in 1841 every time the economy freezes up because of the implementation of those principles. The Australian economist John Quiggin refers to this ritual recitation of obsolete English ideas as “zombie economics.” In the aftermath of the Crash of 2008, “the zombie ideas that brought the global financial system to the brink of meltdown and have already caused thousands of firms to fail and cost millions of workers their jobs,” could still be seen staggering down the halls of academe with their arms stretched out rigidly in front of them uttering words like “privatization.”⁴⁹ (“For the zombies in the movies,” Quiggin writes, “the most common such word is ‘Brains.’ For economic Zombies, the equivalent is surely, ‘Privatization.’”⁵⁰) The package of obsolete economics ideas which present day economic zombies inherited from their forebears in the Manchester School is known as “‘Thatcherism’ in the UK, ‘Reaganism’ in the US, ‘economic rationalism’ in Australia, the ‘Washington Consensus’

in the developing world, and 'neoliberalism' in academic discussions."⁵¹

The disconnect between English free trade, laissez-faire capitalist dogma and the economic realities which it purported to explain would become painfully obvious during England's handling of the Irish Potato Famine, which ushered in the repeal of the Corn Laws, but it was made theoretically clear in 1841 when List wrote that Adam Smith "has entirely forgotten what the title of his book, *Wealth of Nations*, promised to treat"⁵² because as a proponent of the English system he did not understand the meaning of nationhood. Adam Smith and J. B. Say regarded "wealth from the narrow point of view of an individual merchant," asserting that "this is evidently not a system of national economy, but a system of the private economy of the human race."⁵³ List pointed out that even John Stuart Mill claimed that, Adam Smith's "error consists in not adding to those general principles the modifications caused by the fractions of the human race into national bodies. . . ."⁵⁴

Smith promoted individual economics and cosmopolitan economics but ignored national economics. The same thing was *a fortiori* true of Smith's mentor, the French physician Quesnay:

who first conceived the idea of a universal free trade, extended his view to the whole of mankind, confining himself to no single nation. The title of his work is: *Physiocratie, ou du gouvernement le plus avantageuse au genre humain*. His starting point is that the merchants of all countries must be considered as constituting a single commercial republic. It is obvious that Quesnay treats of the cosmopolitan economy.⁵⁵

The same error was refined and further propagated by Smith's French disciple J. B. Say, who "admits that the idea of free trade depends upon the conception of an universal republic," when he writes that "Political economy has in view the interest of all nations, or of society in general."⁵⁶ Say "has produced a confusion of ideas and masked a series of very grave theoretical errors,"⁵⁷ in which "all the later writers have participated."⁵⁸ List was referring to the Manchester School, which was in ascendancy when he wrote, but his claim could be expanded to include the zombie economists Quiggin mentions in his book as well.

Angered by Cooper's typically English reduction of the state to a merely "grammatical" entity and encouraged by Germany's implementation of Fichte's rehabilitation of the role of the state ("At this moment, the interests of Germany alone give him the courage to publish the present work."⁵⁹), List argued that "The highest association of individuals now realized is that of the state, the nation."⁶⁰ Beyond that:

The association of individuals for the prosecution of a common end, is the most efficacious mode toward ensuring the happiness of individuals. Alone and separated from his fellow creatures, man is feeble and destitute. The greater the

number of those who are united, the more perfect is the association, and great and the more perfect is the result, which is the moral and material welfare of individuals.⁶¹

Encouraged by Kant's rehabilitation of the powers of reason and Fichte's application of those ideas, List sought to reintegrate economics into the philosophical matrix from which Smith and the classical school had torn it when they turned economics into pseudo-physics under the aegis of moral Newtonianism. According to List, "Political economy must rely upon Philosophy, Policy and History."⁶² The combined testimony of those disciplines tells us that the first duty of the state is not amassing wealth but the protection of the nation's "productive power." By introducing the concept of productive power to the heart of his economic system, List defuses the conflict between the state and the individual which plagues the classical system by showing that the relationship between the state and the individual is reciprocal because "individuals owe the greatest part of their productive power to the political organization, and to the power of the country in which they reside."⁶³ From the English point of view, individuals unite to create a state; from the German point of view, the state creates "citizens" out of a mere mass of individuals, because "Individuals would be in vain laborious, economical, ingenious, enterprising, intelligent, and moral without a division of labor and a co-operation of productive power,"⁶⁴ which is guaranteed by the state.

Productive power, therefore, is the true source of a nation's wealth., more important than the ownership of material things, even very valuable material things like silver and gold, "because," as List puts it, "the tree which bears the fruit is more important than the fruit itself."⁶⁵ The concept of productive power leads List to conclude that the real source of English wealth is English labor when he claims that "a million of English workmen accomplish at present day the work of one hundred millions of men."⁶⁶

After espousing a labor theory of value, List simply dropped the topic of labor and moved on. In this he was not unlike Smith who mentioned both the nation and labor in his *magnum opus* but never really developed either concept fully. Smith's system remained incomplete, in List's eyes, because he was corrupted by the materialism of his age: "His researches are limited to that activity of men which produces material values. . . . Thus his doctrine becomes more and more materialist, special and individual."⁶⁷ Smith, in fact, "went so far astray as to explain the moral powers by purely material circumstances, and from this error springs all the absurdities, all the contradictions of which his school has been guilty to this day."⁶⁸

Labor needed the nation to bring its efforts to fruition. List felt that labor was the necessary but not sufficient condition for wealth. Nations like Ireland can labor but remain poor because the Irish lack "a social order

which makes their activity fruitful and their natural powers efficient."⁶⁹

In all these respects the principal thing is the condition of society in which the individual has been brought up, and in which he moves. It is important to know if science and art flourish in them; if institutions and laws favor religious sentiment, morality and intelligence, security for person and property, liberty and justice.⁷⁰

Smith's materialism led him to conclude erroneously that "bodily labor [should] be designated as the only producer of riches."⁷¹ According to this theory:

he who raises swine is accounted a productive member of society; he who raises men is unproductive; he who manufactures for sale bag-pipes or jews-harps is a producer; the greatest musicians are not, because what they play cannot be exhibited in market.⁷²

Smith's definition of capital ignores both the role of the nation and the source of wealth in the nation's productive power:

Adam Smith has merely taken the word capital in that sense in which it is necessarily taken by rentiers or merchants in their bookkeeping and their balance sheets, namely as the grand total of their values of exchange in contradistinction to the income accruing therefrom . . . he has forgotten that the ability of the whole nation to increase the sum of its material capital consists mainly in the possibility of converting unused natural powers into material capital, into valuable and income-producing instruments, and that in the case of the merely agricultural nation a mass of natural powers lies idle or dead which can be quickened into activity only by manufactures.⁷³

In the section on economic history which makes up the bulk of *The National System of Political Economy*, List claims that protection, not free trade, led to the rise of England as a commercial power. The English preached free trade but practiced protectionism:

In the reign of George I, the statesmen of England were fully aware of the real basis of the power of their country. In 1721 . . . "it is very obvious that nothing would more conduce to the obtaining so public a good than to make the exportation of our manufactures and the importation of the commodities used in the manufacturing of them a practicable and easy as may be." Such had been for centuries the governing principle of English commercial policy.⁷⁴

England converted to free trade in practice in List's day because by then their manufacturing power had become so overwhelmingly superior to the rest of the world's that they were confident that, in the absence of protective tariffs, they could undercut every other nation's prices and drive their manufactories to the wall. What the English free-traders failed to acknowledge is that they had achieved this state of affairs only after centuries of protection had turned their manufacturing base into a juggernaut that ruled over the rest of the world's economies.

List claims that the English had discovered the theory of productive power “without fully comprehending” its implications,⁷⁵ much as Smith began *Wealth of Nations* with a discussion of labor but soon lost sight of the idea. Since Smith who wrote that “Labor is the fund which originally supplies a nation with its wealth,” List concludes that “Adam Smith perfectly understood that the welfare of nations depends chiefly on the amount of their productive power,” but unfortunately “the cosmopolite idea of the Physiocrats, universal free trade, and that really great discovery of the division of labor preoccupied him too much to allow the pursuit of the idea of productive power.”⁷⁶

Every thinker of the classical school who came after Smith made the same mistake. Say failed to see that “The property of a nation does not depend. . . on the quantity of riches and of exchangeable values it possesses, but upon the degree in which the productive power is developed.”⁷⁷ Since productive power is more important than material wealth, “A nation ought to make the sacrifice and bear the privation of material riches, to acquire intellectual or social power.” Even if it can buy manufactured items more cheaply from abroad, the nation “must sacrifice present advantages to secure future benefits,”⁷⁸ all of which accrue from a securely established manufacturing base. England’s “gift” of cheap manufactured goods is comparable to the Trojan horse or “the gift which the Sultan makes to his Pashas when he sends them a silken cord with which to hang themselves.”⁷⁹ A country which allows England to flood its markets with cheap manufactures is like a man who “consoles himself for the loss of an arm, by the fact that he could purchase his shirt forty percent cheaper.”⁸⁰ The purpose of government was to protect that productive power by tariffs, just as the navy protected the nation’s shipping and commerce. Even if that meant increased prices over the short run, the cost was worth the rise in productive power that it enabled over the long run.

Virtually all of the errors of the classical school, according to List, flowed from its failure to understand key concepts like nationhood, labor, and productive power. The Classical School of laissez-faire Capitalism:

presents three essential defects: firstly, a chimerical cosmopolitanism, which does not comprehend nationality, and which has no regard for national interests; secondly, a dead materialism, which regards everywhere the exchangeable value of things taking account neither of the moral nor of the political interests of the present nor of the future, nor of the productive power of the nation; thirdly, a separatism, a disorganizing individualism, which disregarding the nature of social labor and the working of associative power towards its highest results merely describes or depicts individual industry.⁸¹

Ultimately, “the power of creating wealth is . . . vastly more important than wealth itself.”⁸² The nation magnifies the productive power of industry,

and vice versa. Only the state can protect the nation from predatory capitalism, but the only way a nation can protect itself from predatory capitalism is through the protection of domestic industry, and the only way that the state can protect domestic industry is by the tariff. So, in spite of the implicit labor theory of value, everything in List's system comes down to the tariff.

If Smith was distracted by the prejudices of the Enlightenment, List was distracted by the hectic life he was forced to live, as well as the overriding importance of the tariff in his system, an idea which subordinated everything else to epiphenomenal status. In List's mind the tariff would solve the labor issue, and it would solve the banking issue. Events in America had proved the benefits of the tariff. While admitting that the Panic of 1837 found its cause in "the organization of the banks and the circulation of notes," List claimed that the ultimate cause of the American banking crisis was free trade because:

since the adoption of the compromise act, the value of the manufactured goods from England had greatly exceeded that of the agricultural products exported from America, and that the United States had thus become a debtor to England for several hundreds of millions that they had not been able to pay with their products. That proves that these revulsions must be attributed to disproportionate importations.⁸³

Unfortunately, List does for tariffs what the physiocrats did for free trade. He turns it into "an universal panacea, capable of curing all the evils of humanity."⁸⁴ Like Smith, List was also a prisoner of the Enlightenment penchant for self-correcting mechanisms which allowed him to ignore the moral matrix of economic life. List's sympathy for the Enlightenment derived from his Protestant upbringing in Reutlingen, which made him a "born Republican"⁸⁵ and led him to condone the looting of Church property during the English reformation as "advantageous to her industry"⁸⁶ when the opposite was the case. Similarly, List, who was probably England's most formidable intellectual opponent during the 19th century, had internalized the Black Legend, the undisputed war horse of Whig history, by claiming that

religious fanaticism conspired with despotism to extinguish the genius of the [Spanish] nation. That work of darkness was commenced by the expulsion of the Jews and terminated by that of the Moors, two millions of the most industrious and the richest of her inhabitants were thrust out of Spain with her capital. Whilst the inquisition thus applied itself to banish national industry, it exerted itself with equal success in preventing the establishment in Spain of foreign manufactures.⁸⁷

List ignores the fact that the Jews in Spain were usurers and that they had nothing to do with manufacturing in Spain or anywhere else in Eu-

rope until the second half of the 19th century. As usurers, the Jews were a malignant force in the Spanish economy in the 15th century which hindered the productive use of wealth every bit as much as their usury hindered the productive use of wealth in 19th century England and Germany.

More cogently, List argues that Spain's demise as a world power came about because the Spaniards spent the gold and silver they acquired from the New World rather than investing it in manufacturing, which is what the French did under Colbert, producing enormous wealth as well as the first system of protected manufactures, of which List was a later exponent. List claims that when Spain

bought goods manufactured in foreign countries with gold and silver extorted from their colonies, they transformed useful and industrious citizens into overseers of slaves and colonial tyrants; they stimulated the industry, commerce and navigation of Holland and England, awakening rivals who soon became powerful enough to destroy their fleet and to wrest from them the sources of their opulence.⁸⁸

List felt that the "immense progress" which England had "made in the manufacture of cotton . . . yielded annually a sum of values far exceeding the interest which that country paid for its increase of debt. . . ."⁸⁹ But the opposite was the case. Smith's analysis of sovereign debt was, in this instance, more accurate than List's. Productive power is a formidable force, but it is no match for compound interest accruing on sovereign debt, the one force which, as Smith pointed out, weakened every nation which succumbed to the temptation of usury. The sovereign debt crisis in England which led to the American Revolution came about because of the inexorable working of usury during the 80 years which followed the founding of the Bank of England. The Whigs allowed the usurers to profit at the expense of labor, with predictable results. The last 20 of those 80 years corresponded with the beginning of the Industrial Revolution in England, a period of unprecident increase in productive power, which, nonetheless, proved powerless in spite of the massive exploitation of cheap labor which accompanied it, to expunge England's debt.

Blinded by his commitment to the tariff as the "universal panacea," List failed to see that usury was a problem that the tariff could not solve, even though at the end of his magnum opus, he adverted to it as the heart of predatory capitalism when he claimed that England was "the arsenal of extensive capital, the universal banker," whose goal was "regulating, if not controlling the circulating money of the whole world, and making all nations tributary to her by loans and the payment of interest."⁹⁰ By the time List wrote those words, the wealth of the landed aristocracy was well on its way to being completely mortgaged to the money lending Jews, who would soon control its political destiny as well.

Instead of settling down and sorting out the contradictions in and expanding the scope of his economic system, List threw himself back into the ceaseless round of travels and lobbying which characterized his life before the publication of *Das Nationale System der Politischen Oekonomie*. In early 1841, List moved to Augsburg, ancestral home of the Fugger banking family. In May, to be with Georg von Cotta, he moved to Stuttgart, where he broke his leg and was laid up for weeks convalescing. In October, he was included in a general amnesty granted to former political prisoners, which allowed him to run for political office once again.

Instead of settling down in his native town, List resumed his peregrinations as a publicist for the spread of the *Zollverein* and increasing the tariff to stimulate growth in German manufactures. List felt that Germany could be likened to the State of New Jersey, which Benjamin Franklin described as "a cask tapped at both ends, the contents being drawn off by her neighbors,"⁹¹ and that the best thing that Germany could do was imitate the protectionist measures taken by the United States.

To prevent the Germans from "pursuing cosmopolite dreams,"⁹² List founded a magazine, the *Zollvereinsblatt*, whose first number appeared on January 1, 1843. Over the next four years, List wrote 650 articles on the issue of protective tariffs, but in spite of his efforts, List's relentless travelling schedule took its inevitable toll, and the number of subscribers fell steadily to a nadir of 700 in 1846.

By late 1844 List was delegating his editorial responsibilities to the magazine's printer, who was told to fill issues with whatever reprints and filler he could find as List travelled through Austria and Hungary promoting railroads and tariffs. Needless to say, a magazine run on these principles was doomed because "No paper is likely to survive if the editor abdicates his responsibilities and expects a printer to decide what articles should appear in the next number."⁹³

When List arrived in Hungary, Lajos Kossuth, the Hungarian nationalist firebrand, greeted him as the man "who has most clearly revealed to the nation its true economic interests."⁹⁴ Just what those interests were, vis-a-vis the Austro-Hungarian empire, however, were not clear. Should Hungary create its own closed commercial state and impose tariffs on Austrian goods, even though both nations were part of the same empire? Should Austria join the German *Zollverein* and exclude Hungarian agricultural products? Since Hungary was not an independent nation, it could not pursue an independent economic policy. Should the Hungarians secede, even if they ended up like the smaller German principalities before the *Zollverein* totally lacking in economies of scale?

List felt that Hungary was "a classic example of a backward sparsely populated agrarian region with a low standard of living."⁹⁵ As in Poland,

another backward agrarian country, nobles owned great estates and insisted on feudal privileges, while assigning the administration of their estates to Jews, who "carried out many of the functions generally performed by an indigenous middle class" while exploiting the peasantry they were to manage by the same methods that had become notorious in Poland before the final partition and extinction of that country.

List urged the Hungarians to construct roads, canals and railways to "provide immediate employment for large number of workers" while at the same time it "would increase land values, stimulate the circulation of money and foster the expansion of agriculture and industry."⁹⁶ But when List argued that "the customs duties levied at the Austro-Hungarian frontier should be abolished to enable Magyar agricultural products to be freely exchanged for Austrian economic goods" he ran afoul of the Hungarian nationalists, who had read his book in its Hungarian translation when it came out in 1843 and realized that List was urging the Hungarians to do in relation to Austria what he had been urging the Germans to avoid doing in their relations with Britain. List gave impetus to the rise of Hungarian nationalism but failed to secure an administrative post in Vienna. List returned to Germany and continued working for protectionism there, oblivious to the fact that he was "creating dissension among the states which he wished to see united."⁹⁷

List's mission to Hungary in 1844 was fraught with contradictions which he could not resolve, but it was not Mission Impossible, which is the only way to describe his trip to England in the fall of 1846. After years of campaigning against English laissez-faire capitalism as the economic version of the *radix malorum*, List abruptly changed his position and tried to persuade England, against whom Germany and America had erected their tariffs, to join the *Zollverein*. That the English met with List at all is a sign of their inveterate tolerance and politeness, but it is difficult to imagine a more inauspicious mission undertaken at a more inopportune time.

Always the visionary, List told his English hosts that the United States and Russia would be the most powerful countries in the world in the future.⁹⁸ Given that fact, List argued that "it was in Britain's true interest that the *Zollverein* should expand and become the nucleus of a united Germany."⁹⁹ List couldn't have planned a worst time to make his case. The Peel government had just fallen because of its repeal of the Corn Laws. Free trade dogma had triumphed in England. We can imagine his auditors, which included the newly installed free trade Whigs as well as Bowring, MacGregor and Cobden, who made up the brain trust of the Manchester School, shaking their heads in disbelief at List's proposal that England join the customs union that had been erected to keep English goods out of Germany. Since the proposal's chances of success were somewhere between

low and non-existent, the attempt to bring it about calls List's mental faculties into question.

In point of fact, others had begun to question List's mental stability. His protégé Robert Mohl, who had met with List in the spring of 1846, found him mentally unbalanced and suffering from a persecution mania.¹⁰⁰ List, who had quarreled with and separated from Cotta over how the *Zollvereinsblatt* was being run, returned to Germany in November 1846 after his failed mission to England, with the prospect of running the magazine by himself at a time when he was 57 years old and his physical and mental powers were failing. "As to the future," he wrote in his last letter to Dr. Kolb, "with no income from my pen I would have to live on my wife's capital—I have none of my own—and that would be quite insufficient to cover the barest necessities for her and the children."¹⁰¹

Depressed and unable to work, List left Munich for the Tirol in November hoping that warmer weather would ease his afflictions. He got as far as Kufstein on November 28. After spending two days in bed in the cheapest room he could find at the Gasthaus zur Post, List left his lodgings early in the morning of November 30 and was never seen alive again. His body was found two days later with a bullet wound to the head. The inquest conducted after his death concluded that List had committed suicide while "suffering from such a degree of melancholia as to render him incapable of thinking clearly or of acting normally."¹⁰²

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Chapter Seventy-Three

Marx on List

In 1841, the year in which the German edition of his *National System of Political Economy* appeared, Friedrich List was offered a job as editor of the *Rheinische Zeitung*. The Zionist Moses Hess was in the running for the same job as was the Communist Karl Marx. Eventually Marx got the job because List turned it down for health reasons and because Hess was considered too radical.¹

Karl Marx was born on May 5, 1818 in the ancient German city of Trier into a family which came from a long line of rabbis on both his father's and mother's side. Karl's grandfather, Meier Halevi Marx, was Trier's rabbi when Marx was a child. It was an office which the family had held since 1723. His father Heinrich (ne Herschel) was a Prussian civil servant who had converted to Christianity to advance his career. Heinrich was a typical product of the Enlightenment and as such influenced by the writings of Kant and Voltaire.

Dismayed by his father's cynical opportunism, Marx would grow up hating both religious traditions. Marx's disillusionment with his father soon found expression in various acts of adolescent rebellion. As a student Marx joined a local drinking society, and when his grades suffered as a result, his father shipped him off to the University of Berlin, where he made contact with the even more intoxicating writings of G. W. F. Hegel, then five years dead, but whose ideas were kept alive by Young Hegelians like Ludwig Feuerbach and Bruno Bauer.

After completing his doctoral degree in 1841 on *The Difference between the Democritean and Epicurean Philosophy of Nature*, Marx moved to Cologne where he embarked upon a career in journalism as the editor of the radical *Rheinische Zeitung*. When the Prussian authorities shut the RZ down, Marx moved with his young family to Paris in October 1843, and on August 8, 1844 he met fellow German socialist Friedrich Engels, who showed him the recently completed manuscript of his book *The Condition of the Working Class in England* in 1844, "which convinced Marx that the working class would be the agent and instrument of the final revolution in history."²

Engels was born in 1820 into a pious, well-to-do upper middle class family in Barmen, which has since been incorporated into the city of Wuppertal.³ His father was a prosperous cotton manufacturer, which meant that

he was intimately involved in the question of tariffs vs. free trade which dominated the discussions concerning the German economy in the post-Napoleonic era. Engels attended the Gymnasium but left in October 1837 without taking the Abitur to work in his father's business. Like Marx, Engels fell under the influence of Feuerbach, and by 1842 he too was contributing articles to the *Rheinische Zeitung*, which Marx was editing in Cologne. Two months after completing his military service, Engels left for England and took an apprenticeship at the firm of Erman and Engels, a Manchester cotton firm which was partly owned by Engels' father.

Engels arrived in Manchester when the industrial north was seething with labor unrest in the aftermath of the failed Plug Plot of August of 1842.⁴ The Plug Plot riots took their name from the plugs which the striking workers had removed from steam boilers which ran the cotton mill machinery, bringing the cloth industry to a halt in response to wage cuts. The strikes began at Bayley's cotton mill in Stalybridge and soon spread to the cotton mills of Manchester, like the one owned by Engels' father. The striking workers, who soon became involved in the Chartist movement, were asking for a restoration of the wages of 1820, a ten-hour working day, and reduced rents. When they struck in Preston, the police were called in, and four men were shot to death on Lune St. on August 14.⁵

After visiting the slums and seeing how wretchedly the workers were housed, Engels concluded that the working class in the wealthiest manufacturing nation on earth were chronically "over-worked, underpaid, and underfed."⁶ As in Ireland, those who were too weak or sick to hold factory jobs were forced, according to the poor laws of the time, to labor in the country's detested workhouses to avoid starving to death.

Engels brought his own internal turmoil with him when he arrived in Manchester in late 1842. He was "at loggerheads with his family and watched by the police" before he left Germany and was "a young man in a bad temper"⁷ when he arrived in England, ready to denounce what he saw before he arrived because he had seen the same sort of thing in Germany in his father's factory. Concern about the legitimate grievances of the workers got mixed, as in the case of Marx, with the cosmic spirit of rebellion that Feuerbach had imbibed from the French Revolution, and the result was a desire, not so much to alleviate the plight of the worker, as to destroy the social order which both Marx and Engels held responsible for that plight.

Engels' Beatrice, the spirit who guided him through the hell of industrial Manchester, was a young Irish woman by the name of Mary Burns. Burns was the same age as Engels and worked in the Victoria cotton mill of Ermen & Engels. Burns provided Engels with entrée to the slums he described in his book, and he showed his gratitude by turning her into his mistress.

Engels then “embarked upon an elaborate double life”⁸ which entailed keeping a set of rooms where he entertained his business friends and living the rest of the time under assumed names in boarding houses run by Mary Burns and her sister Lizzy. Engels also became sexually intimate with Mary’s sister Lizzy, which, if it happened during Mary’s life, may have contributed to the heavy drinking which eventually killed her on January 7, 1863.

After Mary’s death, Engels continued the same sort of covert relationship with her sister Lizzy until her death on September 11, 1878. According to Karl Marx’s daughter Eleanor, who was a frequent visitor to the Engels’ household, Lizzy “was illiterate and could not read or write but she was true, honest and in some ways as fine-souled a woman as you could meet” and “in continual touch with the many Irishmen in Manchester and always well informed of their conspiracies.”⁹

The exploitative nature of Engels’ sexual relationship with Mary Burns, and later her sister Lizzie, seems unavoidable given the disparity in their social positions, Engels’ refusal to marry either woman, and the double life which Engels led to keep his liaisons secret, but it is generally glossed over by claims that “the two were opposed to the bourgeois institution of marriage.”¹⁰

Engels, however, had more success fooling posterity than he did in fooling his own conscience. In his book on the condition of the working classes in England he repeatedly claimed that the “English factory was little better than a harem and that manufacturers had immoral relations with their female employees” without any indication that he was engaged in precisely this sort of sexual exploitation as a result of his privileged position as scion of the factory owner. As one commentator put it, “Since his own mistress (Mary Burns) had been a cotton operative, Engels was the last person to be entitled to make reckless accusations concerning the morals of the factory owners.”¹¹

The hypocrisy of Engels’ position would soon find its way into social-isit dogma. In the Communist Manifesto Marx (or most probably Engels) wrote: “Communists . . . desire to introduce, in substitution for a hypocritically concealed, an openly legalized community of women.”¹² If anyone were ever guilty of a “hypocritically concealed” relationship with a working class woman, it was Friedrich Engels.

Over the course of the next century, the addition of sexual liberation to the dogmas of the Left would not only cause misery among the working classes Marx and Engels set out to liberate by depriving them of what little stability their families provided to their lives, it would also prove fatal to the Left’s commitment to the workers’ cause itself. During the 1960s, the New Left, under the guidance of figures like David Horowitz, would

give primacy to sexual issues over economic issues, thereby leading to the collapse of the movement and Horowitz's conversion to neoconservatism. The sexualization of the Left which began with Engels' "hypocritically concealed" relationship with Mary and Lizzy Burns would find its culmination in 1970 when Wilhelm Reich, the apostle of "sexual revolution" (a term he invented) and masturbation, appeared on the cover of the *New York Times* magazine, thereby announcing the dethronement of Marx and Engels and eventual disappearance of the primacy of economic critique in the agenda of the Left in favor of support for sexual deviance. This commitment to sexual revolution which blocked the possibility of any Left-wing alliance with the Catholic Church, which should have been their natural ally on the labor issue and usury.

Immediately after returning to Barmen in the autumn of 1844 Friedrich Engels began to write his book on the condition of the English workers. Engels' book was a function of his uneasy conscience, a fact that would plague the Left for the rest of its troubled existence. Instead of pointing out abuses which could have been ameliorated by an appeal to the Christian conscience of factory owners like his father, Engels engaged in a campaign of symbolic parricide by suppressing "any evidence which did not support his thesis of the innate wickedness of the bourgeoisie." In fact, he often "deliberately refrained from laying the full facts before his readers."¹³ Because of their commitment to a priori concepts like the "proletariat" and revolution, Marx and Engels refused to admit that amelioration via moral suasion was possible. In *The Condition of the Working Class in England*, Engels "refused to admit that recent reforms had improved the lot of the English workers. The abolition of truck (1830-1) . . . and Sir Robert Peel's reform of the tariff (1841) had all contributed towards alleviating the sufferings and raising the living standards of the workers."¹⁴

It was this book, which he completed on March 15, 1845, that Engels showed to Marx in manuscript form when they met for the first time in Paris during the summer of 1844. Marx had already indicated the role which the proletariat would play in revolutionary politics in his "Contribution to the Critique of Hegel's Philosophy of Right: Introduction," which is also the first work of Marx that alludes to Friedrich List.¹⁵ The nation as understood by List and the proletariat as understood by Marx would become philosophical and economic antinomies from then on. As late as 1908, Rosa Luxemburg was still claiming that:

Friedrich List, with his trivial theory of "national economy," can be more justifiably considered the real messiah of the national unity of Germany than the idealist Fichte, mentioned usually as the first apostle of German national rebirth. This "national" movement . . . basically represented only a medieval reaction against the seeds of Revolution, which were brought to Germany by Napoleon,

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and against the elements of the modern bourgeois system.¹⁶

By the mid-1840s, List was famous and Marx still unknown. We have no idea what List thought of Marx, but we do have a fairly clear idea of what Marx felt about List because in March 1845 Marx began a critical essay reviewing List's *magnum opus*, *The National System of Political Economy*. Marx "never finished his 'List critique.'" It remained unknown long after his death until a Russian translation appeared in a Soviet historical journal in 1971,¹⁷ but it gives us an important insight into his intellectual development at a crucial period in his life.

The period of German intellectual history which began with the publication of Kant's *Critique of Pure Reason* in 1781 reached its culmination 90 years later in 1871 when Germany was united under Prussian hegemony. The history of German economic thought which began with the publication of Fichte's *Geschlossene Handelsstaat* was completely within the Kantian tradition. It stressed the power of the state; it favored domestic production over foreign trade; fiat currency over gold; protective tariffs rather than free trade. It was anti-English.

List's *National System of Political Economy* elaborated one aspect of the German system—namely, tariffs—but it was completely within the intellectual purview which Fichte, operating on Kantian principles, had established. Taken together all of these works created a coherent German alternative to laissez-faire capitalism which was radically conservative and nationalistic. It preserved German culture to a large extent, although not completely, from the "creative destruction," to use a term made popular by Joseph Schumpeter years later, which British free trade brought inevitably in its wake. It presided over the erection of the *Zollverein* as well as the construction of the German railway network that accompanied it and found its culmination in 1871 in German unification.

The coherence of this tradition would be radically disrupted by the rabbi's grandson from Trier. Karl Marx's father may have converted to Prussian Christianity, but Karl, even though he professed no religion at all, was deeply influenced by the Judaism of his forebears in a way that more than one commentator has noticed. "Marx," David Horowitz wrote, "was a rabbi after all. The revolutionary idea is a religious consolation for earthly defeat."¹⁸

The intellectual alchemy which transformed Karl Marx into an anti-Semite as well as a Jewish revolutionary was bewildering at first glance but fairly predictable given the intellectual forces of his day. The same Enlightenment which dissolved all customs and religious beliefs when applied to Christianity reduced Judaism to its ontological essence as rejection of Logos culminating in revolution.¹⁹ The German Enlightenment, in other words, gave birth to the Jewish revolutionary spirit in an especially virulent

form when it made contact with Jews who felt that their own religious tradition had been discredited. During the 1830s and 1840s Marx succumbed to the same intellectual process which created the *Maskilim* of his father's generation in Prussia and then the Jewish settlements to the east and would eventually transform the *shtetls* of western Russia into a hotbed of Jewish revolutionary activity which would bring about the first Marxist state when the Bolsheviks toppled the Czar in 1917. When the German Enlightenment made contact with the Jewish soul, it led to assimilation in the first generation and radicalism in the second.

The man who brought these two traditions together was Karl Marx, and he did it a crucial moment, when 1) the misery which capitalism had wrought, as manifested in the Irish potato famine and the condition of the working class in England, had become too obvious to ignore and 2) when it had become clear that the plight of the worker had been ignored by the heirs of the French Revolution. Pesch claims that the French Revolution was simply an intermediary event on a trajectory which began with the looting of Church property known as the Reformation and which would find its ultimate expression in socialism. The name for the political aspect of this trajectory was Liberalism; the name of its economic aspect was Capitalism. The term Liberalism has been fraught with confusion ever since it became the name of the anti-laissez faire Capitalism party in the United States, especially after World War II. That confusion only increased when British Liberalism got exported to the continent, where it became the anticlerical party of the Left. As things stand now, the parties of both the Left and the Right share the anthropology of Enlightenment Liberalism, which is based in both instances on a defective understanding of freedom as the simple absence of restraint opposed to the Catholic understanding of freedom which is invariably associated with an ontology which involves both human and divine being as defined by essences which condition and contextualize the exercise of freedom. Ever since the political emergence of the Left at the time of the French Revolution and its philosophical emergence as socialism and Marxism 60 years later, political conflict has been defined as conflict between two differing interpretations of the Enlightenment both in Europe and America, where it got defined as the conflict between liberty and equality. The French Revolution had awakened expectations which were bitterly disappointed by middle of the 19th century, and Friedrich Engels gives a trenchant analysis of why socialism was born out of that disappointment:

The rational state was in a state of complete collapse. The Rousseauistic social contract became instead a reign of terror from which the bourgeoisie, having lost confidence in its own political capacity, fled first to the corruption of the Directory, and finally to the protective mantle of Napoleon's despotism. The

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promised eternal peace was perverted instead into an endless war of conquest. The reasonable society fared no better. The opposition between rich and poor, instead of being dissolved into universal well-being was embittered by the removal of the regulations of guilds and others, and of ecclesiastical charitable institutions which had tempered it in the past. The "liberation of property from feudal bonds" which had become a reality ended up being for the petty bourgeoisie and the small farmers merely the freedom to sell their small properties in the face of the overwhelming competition from big capital and big landowners. Thus, it became instead, for the petty bourgeoisie and the small farmers, a liberation from property. The rise of industry in capitalistic form elevated the poverty and misery of the working classes into a standard condition of society. Payment in cash became, to use Carlyle's expression, the only bond which held society together. The number of crimes increased from year to year. . . . Trade developed more and more into fraud. The "fraternity" of the revolutionary motto turned into chicanery and into the kind of greed which marked competitive struggle. In place of violent suppression, there came corruption; and in place of the sword as the prime lever of social power, there came money. Briefly, as compared with the bright promises of the "enlighteners," the social and political institutions which came with the "triumph of reason" turned out to be caricatures with bitter disillusionment. All that was missing yet were the people who would diagnose this disillusionment, and those came along at the turn of the century."²⁰

Engels' cautionary tale has a clear Christian moral to it, which he deliberately ignores even after he brings it up. By abolishing the customary restraints which Christianity had placed on human appetites, the French Revolution had allowed the rapacious capitalists to gain the upper hand and oppress the poor in a way unknown when Christianity was the source of the social order. The German Romanticism which arose in the wake of Napoleon's conquests was an essentially Christian, if not overtly Catholic, attempt to rediscover the roots of that social order in the pre-Reformation German past. And it was precisely this attempt which Marx, the avatar of the Jewish revolutionary spirit, subjected to ridicule in his critique of List. With a sly dig at Romanticism, Marx characterized the "present German regime" as "the comedian of a world order whose real heroes are dead."²¹ Marx dismisses not only Romanticism as hopelessly anachronistic but the entire system which Germans like Fichte, Mueller and List had erected on Kant's refutation of empiricism. Marx uses the imagery of German Romanticism to ridicule German economic thought, claiming that "The German bourgeois is [like] the knight of the rueful countenance, "who wanted "to introduce knight errantry just when the police and money had come to the fore."²²

The arrival of Karl Marx on the stage of world history at the crucial moment when the evils of capitalism were undeniable and the promises of revolution had turned to disillusionment insured that the reaction to capitalism known as socialism (or communism) would be Jewish, which is

to say, internationalist and not nationalist, and that it would be revolutionary, which is to say, determined to destroy the social order, rather than heal it, and, most ironically of all, English rather than German, even though it would find its first concrete political expression in Germany, not England, under the leadership of people like Lassalle, Bernstein and Rodbertus.

Years before Marx would seek political asylum in London, he had become intellectually colonized by British economic thought. Marx never abandoned his admiration for German philosophy, but because he felt that people like David Ricardo, another Jewish convert, were the most advanced economic thinkers of his age, Marx held German economists in general and List in particular in contempt. The idea that an economy was as specific to a nation as that nation's language, and that tariffs were necessary to protect both the nation and the national economy from predatory free trade were notions offensive to Marx's Jewish, rootless, internationalist sensibilities. According to Marx, German national economists like List erred because they tried to frame the economic issue:

In the form of protective tariffs, the system of prohibition, the national economy. German chauvinism has passed from men to matter, so that one fine day our knights of cotton and heroes of iron found themselves metamorphosed into patriots. . . . The old rotten order against which these nations revolt in their theories . . . is hailed in Germany as the dawn of a glorious future which as yet hardly dares to move from a cunning [The German word in Marx's manuscript was "listigen," a punning reference to List's system of national economy] theory to a ruthless practice. . . . While in England and France the problem is put in the form: "political economy or the rule of society over wealth": in Germany it is put in the form: national economy or the rule of private property over nationality. Thus, in England and France it is a question of abolishing monopoly, which has developed to its final consequences while in Germany, it is a question of proceeding to the final consequences of monopoly.²³

Marx felt that the Germans were economically and politically backward precisely because they felt that the economy should serve and preserve German culture rather than destroy it through free trade:

The German bourgeois comes on the scene post festum . . . it is just as impossible for him to advance further the political economy exhaustively developed by the English and French as it would probably be for them to contribute anything to the development of philosophy in Germany. The German bourgeois can only hand his illusions and phrases to the French and English reality. But little possible as it is for him to give a new development to political economy, it is still more impossible for him to achieve in practice a further advance of industry, of the by now almost exhausted development on the present foundations of society.²⁴

Marx, as Szporluk, points out:

was concerned not with the liberation of Germans as Germans but with their liberation as human beings. "It is not radical revolution, universal human eman-

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cipation, which is a Utopian dream for Germany, but rather a partial, merely political revolution which leaves the pillars of the building standing.”²⁵

Marx favored the proletariat because it would bring about “the dissolution of the existing social order,”²⁶ whereas List’s tariffs would bring about the exact opposite, namely, the preservation of that order from the inroads of predatory British free trade imperialism. The German peoples’ history, extending back over a millennium and a half, was bound up with a distinctively Christian understanding of economics which Romanticism had attempted to draw upon in coming to grips with the crisis created by English Protestant Capitalism. Marx found all of this offensive. He needed the proletariat as the *Vorhut* of his revolution because the proletariat was an abstract concept which could be infused with whatever meaning Marx wanted to project onto it. Marx insisted that:

There must be formed a sphere of society which claims no traditional status but only human status, a sphere which is not opposed to particular consequences but is totally opposed to the assumptions of the German political system: a sphere, finally, which cannot emancipate itself without emancipating itself from all the other spheres of society, without therefore emancipating all these other spheres, which is, in short a total loss of humanity and which can only redeem itself by a total redemption of humanity. This dissolution of society, as a particular class, is the proletariat.

Both the American system of tariff-protected manufactures and List’s system of national economy shared the same flaw. Both ignored the labor issue in favor of a panacea, the tariff, which would solve the labor problem by insuring higher prices for domestic manufactures. Things did not turn out as planned, and by the middle of the 19th century, the omission of a specific solution to the labor issue had become too big to ignore. Socialism filled the moral vacuum which both free-trade liberalism and the American and German reactions to it ignored.

Because of Marx, the reaction against capitalism known as socialism would have an essentially Jewish world view, which meant hatred of the Christian social order, as well as a desire to destroy rather than heal the European social order, which had been corrupted but not destroyed by laissez-faire Capitalism. Karl Marx changed the terms of the discussion. “What is the worldly cult of the Jew,” Marx asked in *Zur Judenfrage*, “Huckstering. What is his worldly god? Money.”²⁷ In stating his case this way, Marx conferred on the worker a new identity as rootless, a-national crypto-Jew, while at the same time conferring on the Jew the choice of retaining his religious identity as a capitalist or abandoning it and becoming a rootless cosmopolitan revolutionary.

In his memoir about growing up Jewish in Brooklyn, the former New Left and now Neoconservative pundit David Horowitz describes the con-

nection between the corrosive effect which the Enlightenment had on the Jewish soul and the emergence of the modern Jewish revolutionary:

For nearly two hundred years, Jews have played a disproportionate role as leaders of the modern revolutionary movements in Europe and the West. . . . By carrying the revolution to its conclusion, socialists would usher in a millennium and fulfill the messianic prophecies of the pre-Enlightenment religions that modern ideas [i.e., the Enlightenment] had discredited. Through this revolution, the lost unity of mankind would be restored, social harmony would be reestablished, paradise regained. It would be a *tikkun olam*, a repair of the world.²⁸

This repair of the world could only happen if both Christian German and German Jew gave up their respective ethnic identities, and that is precisely what Marx proposes for the Jews in *Zur Judenfrage* and/or the German workers in his critique of List:

As soon as Jew and Christian come to see in their respective religions nothing more than stages in the development of the human mind—snake skins which have been cast off by history, and man as the snake who clothed themselves in them—they will no longer find themselves in religious opposition, but in a purely critical, scientific, and human relationship. Science will then constitute their unity. But scientific oppositions are resolved by science itself.²⁹

The gist of David Horowitz's memoir is that he, like his fellow Jews, had become a product of Marx's alchemy:

Marx promised, "the Jew will become impossible, because his consciousness will no longer have an object." The revolutionary equation was thus complete: "the social emancipation of Jewry is the emancipation of society from Judaism."³⁰

By the time Horowitz found himself growing up in a Jewish communist family in Brooklyn in the 1930s and 40s, the word had gotten out and the children of the goyim in that neighborhood would chant, "Down with the Communists! Up with the Irish." Horowitz claims that the taunt "wounded and confused me, as though an actual blow had been delivered. . . . I wanted to cry back: You don't understand! We're doing this for you. For the Irish and non-Irish alike. For the day when there won't be any wars and there won't be any nations. Just one human family."³¹

If we follow Marx's guidance and consider, under his direction, "the real Jew," what do we find? We find that the real Jew ceases to exist because "the profane basis of Judaism" is "practical need, self-interest." And the "worldly cult of the Jew" is "huckstering" and "his worldly god, money."³² The same is true *mutatis mutandis* for the German worker who becomes a proletarian:

The nationality of the worker is neither French, nor English, nor German; it is labor, free slavery, self-huckstering. His government is neither French, nor English, nor German; it is capital. His native air is neither French, nor German, nor English; it is factory air. The land belonging to him is neither French, nor Eng-

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lish, nor German; it lies a few feet below the ground.³³

Marx disrupted the German nationalist reaction to British imperialism by creating the proletariat to commandeer what Bishop von Ketteler would term the “labor issue” (*Die Arbeiterfrage*) and turn capitalism’s abuse of labor into an excuse to destroy what was left of Christian culture in Europe and America. At the very moment that he transformed all Jews into capitalists in *Zur Judenfrage*, Marx was busy turning workers into Jews, who could now be called proletarians, who could destroy the social order in way that Jews had not been able to do when their identity was religious. The proletariat was a category created by Marx to bring about not the amelioration of working conditions but the destruction of society, which he announced in his critique of List:

When the proletariat announces the dissolution of the existing social order, it only declares the secret of its own existence, for it is the effective dissolution of this order. When the proletariat demands the negation of private property it only lays down as a principle for society what society has already made a principle for the proletariat, and what the latter already involuntarily embodies as the negative result of society. . . . Just as philosophy finds its material weapons in the proletariat, so the proletariat finds its intellectual weapons in philosophy. And once the lighting of thought has penetrated deeply into this virgin soil of the people, the Germans will emancipate themselves and become men [i.e., human beings].³⁴

In other words, the same thing that happened to the Jews will also happen to the German worker. Both groups will be “emancipated” from the cultures that sustained them and delivered over to a new world order that will make the changes effected by the French Revolution seem modest by comparison. Engels would later point out that the first result of Europe’s emancipation from the Christian social order was the exploitation of the poor by the rich, who had been emancipated from following the moral law, but this caveat was lost on Marx, who had an unwavering faith that the destruction of the present Christian order would lead to a future paradise, the ultimate Jewish fantasy of heaven on earth, via *tikkun olam*.

The creation of a nationless proletariat held a particular appeal to Jews, who had no nation of their own and whose religious beliefs had been disrupted by the corrosive effects of Enlightenment thought. Marx “considered the proletariat to be a universal, supranational, and cosmopolitan force, quite unlike any class previously known in history.”³⁵ Szporluk seems unaware that before Marx the main “universal, supranational and cosmopolitan force” in history had been the Jews. It could be argued that Christianity was a universal religion which recognized the dignity of all peoples, but Christianity never shared the contradictory nature of Judaism, which is to say, a religious sect that was both universalistic and ethnocentric at the same time. By the end of the 19th century, these two contradictory prin-

ciples split off into the separate Messianic movements of Communism and Zionism. Christianity was never "cosmopolitan"; it was national, but not nationalistic because the papacy provided a supranational authority that subordinated ethnos to universal, religious laws without eradicating it or exalting it, as nationalism did when Christianity decayed.

Just as Marx conferred a new Jewish identity on the proletariat, he conferred a new identity on the Jews by making explicit the revolutionary nature of their identity which began when they chose Barabbas over Christ. David Horowitz's bewilderment at the fact that Brooklyn's Irish Catholics equated Communists and Jews is simply an indication, a century after the fact, of how successful Marx's efforts had been. By the 1940s, a Jew was someone who championed the oppressed, while simultaneously destroying Christian culture in favor of a perfected world directed by the messianic insights of Jewish leadership. As a result of Marx's revolutionary transformation, Horowitz saw himself as "championing the oppressed," and, therefore, "it would never once have occurred to me, for example, to shout out, like those Irish kids: Up with the Jews!" because:

I did not identify myself as a Jew. I was a revolutionary and an inter-nationalist. To see myself as a Jew, a member of a real community in all its human limits, with all its human faults, to identify with the claims of such a community, would have been a betrayal of the revolutionary Idea.³⁶

The proletariat, like the Jew which provides Marx with the template for his new existence, knows no nation, something that Horowitz noticed when he pointed out that "In Marx's Communist Manifesto the proletariat is identified as a people in exile like the Jews: 'Proletarians have no country. . . . Proletarians of the world unite; you have nothing to lose but your chains.'"³⁷

Marx dismissed a priori as reactionary all attempts, such as those of List, to develop an economic theory which took into account national needs. That meant that there could be no development in the national economy of the sort List deemed necessary for countries which needed to catch up industrially to England because "after industry in England, politics in France and philosophy in Germany have developed, they have been developed for the world, and their world historical significance, as also that of these nations, has thereby come to an end."³⁸

We see here another example of Marx's Anglophilia, in particular Ricardo's theory of comparative advantage taken to its logical *reductio ad absurdum*.³⁹ "Marx's theory of economics," according to Spann, "is built almost entirely upon the foundation laid by Ricardo. His conception of wealth is as rigidly mechanical as Smith's and Ricardo's."⁴⁰ Karl Marx was, in effect, Ricardo turned upside down. Both men advocated the same economic principles and policies (because Marx borrowed them from Ricar-

do). The difference between them lay in the fact that Ricardo thought that good would come of them and Marx was smart enough to understand that the implementation of capitalism would bring about a destruction of the social order.

In a speech he gave in September 1847, Marx claimed, in words that could have been taken directly from Ricardo that "The lowest level of wages is the natural price of the commodity of labor." He claimed this not out of some blind Anglophilia but because it is true. In the absence of any moral intervention into the labor force of the sort proposed no matter how imperfectly by the German guilds in the Middle Ages, wages will be competed down to a subsistence level. Bishop Emmanuel von Ketteler said the same thing in his book *Die Arbeiterfrage und das Christentum*. The remarkable thing about Marx is that he then went on to claim that under free trade "all commodities will be sold at a cheaper price,"⁴¹ knowing full well that free trade would exacerbate, not ameliorate the plight of the working class:

Is that to say that we are against Free Trade? No, we are for Free Trade, because by Free Trade all economical laws, with their most astounding contradictions, will act upon a larger scale, upon a greater extent of territory of the whole earth; and because from the uniting of all these contradictions into a single group, where they stand face to face, will result the struggle which will itself eventuate in the emancipation of the proletariat.⁴²

Marx openly supported free trade precisely because it would increase the misery of the worker:

Generally speaking, the Protective system in these days is conservative, while the Free Trade system works destructively. It breaks up old nationalities and carries antagonism of proletariat and bourgeoisie to the uttermost point. In a word, the Free Trade system hastens the Social Revolution. In the revolutionary sense alone, gentlemen, I am in favor of free trade.⁴³

In order to emancipate the working class "as human beings,"⁴⁴ Marx needed to destroy the tattered remnants of the social order which were still protecting them. That meant destroying private property, the family, religion, and, most importantly from a German perspective, nationality. The same thought is found in Engels, even if it expressed more in the form of wishful thinking:

The great mass of proletarians are, by their very nature, free from national prejudices and their whole disposition and movement is essentially humanitarian, antinationalist. Only the proletarians can destroy nationality, only the awakening proletariat can bring about fraternization between the different nations.⁴⁵

"The communist revolution," Engels wrote in "Principles of Communism" in October 1847, shortly before he collaborated with Marx on the Communist Manifesto:

will therefore be no merely national one; it will be a revolution taking place

simultaneously in all civilized countries, that is at least in England, America, France and Germany . . . it will develop more quickly or more slowly according to whether the country has a more developed industry, more wealth, and a more considerable mass of productive forces. It will therefore be slowest and most difficult to carry out in Germany, quickest and easiest in England. It will also have an important effect upon other countries of the world, and will completely change and greatly accelerate their previous manner of development. It is a worldwide revolution and will therefore be worldwide in scope.⁴⁶

List, unlike Marx and Engels, based his entire argument on the idea that nations are the basic units into which the human race is divided, and that they develop by passing through clearly defined stages. List felt that Germany, like all developing nations, had to undergo the same process of development that England had undergone. Marx, however, construed the problem differently. Disembodied capitalism, not England, was the enemy and the source of exploitation in Germany:

England's industrial tyranny over the world is the domination of industry [Marx's word for capitalism] over the world. England dominates us because industry dominates us. We can free ourselves from England abroad only if we free ourselves from industry at home. We shall be able to put an end to England's domination in the sphere of competition only if we overcome competition within our borders. England has power over us because we have made industry into a power over us.⁴⁷

To Marx "nationality" was a fraud and a disguise for the capitalist's cynical materialism. Like the capitalists, whose free trade arguments he echoes here, Marx felt that nationalism was "the viewpoint of the bourgeoisie in a backward country that wants to be protected from the more advanced and more powerful bourgeoisie abroad. The bourgeoisie wants freedom to exploit the proletariat at home without having to compete in such exploitation with foreign bourgeoisie."⁴⁸

The paradox which emerges from Marx's diatribe against List is that communism is more supportive of English capitalism than List was. By claiming that "money is the fatherland of the industrialist," Marx ran interference for the English capitalism he set out to criticize by disguising its ethnic roots and condemning socialist critique to shadow-boxing ever after. Socialism was blind to the fact that capitalist principles were put into practice by a real government at the head of a real nation, and as a result amenable to amelioration through political effort. List opposed the English because they "cynically betrayed the secret of 'wealth.'"⁴⁹ Adam Smith had revealed its source in human labor in *The Wealth of Nations*, but British imperialism then denied the implementation of those principles through predatory free trade. Marx, in effect, aided and abetted the English in their sinister plot by promoting free trade, which he, every bit as much as List, knew to be destructive of the national economy, because he wanted to de-

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stroy the very thing that List wanted to build up, namely, the German nation and its ability to create wealth.

In Marx's opinion, the Listian argument about the national interest and the development of "productive forces" constituted a retrogression, a retreat from the intellectual and analytic levels attained by the bourgeois economy of Adam Smith. Marx attempted to discredit List by claiming that he had "missed the boat." He then accused List of what amounted to plagiarism. List was an inferior thinker who:

despite all his boasting . . . had put forward not a single proposition that had not been advanced long before him not only by the defenders of the prohibitive system, but even by writers of the "school" invented by List . . . Only the illusions and the idealizing language (phrases) belong to Herr List.

According to Marx, "not a single basic idea" in List's book "has not been first stated and better stated," in the book by Francois Ferrier, *Du gouvernement considere dans ses rapports avec le commerce*, published in Paris in 1805.⁵⁰ The accusation is not only baseless; it is instructive because of what it says about Marx, who was frequently accused of plagiarism by his peers. We have already noted the similarities between Marx and Ricardo. Karl Johann Rodbertus-Jagetzow (1805-1875), whom Spann describes as "the real founder of scientific socialism in Germany"⁵¹ complained that his thoughts were repeatedly plagiarized by Marx.⁵² In fact,

Marx was not the original producer of a single one of the main elements of his teaching. He merely huddled together whatever his predecessors had excogitated in the way of criticism of the existing order. In his dissection of the economic process, he was a follower of Ricardo; and as regards the doctrine of surplus value, Anton Menger points out that the true discoverers of this were "Godwin, Hall, and especially Thompson." In my view, however, Ricardo, with his concept of "profit" is the true spiritual father of the notion of surplus value.⁵³

Spann amplifies Rodbertus's complaint by claiming that: "Marx learned nothing from Hegel, remaining a mechanist, a champion of the Enlightenment, an individualist."⁵⁴ Socialism and the liberalism which begat it shared, in other words, the same philosophical assumptions. Socialism was purely reactive; it was less an economic theory than it was "a disease of the soul," which was the mirror image of the Liberalism which brought it into being; it was "the suppurative inflammation" which invariably appeared whenever the body politic became sickened with capitalism.⁵⁵ The success of Marxism came about not because of originality of its theories, but rather because 1) it was first on the scene to resurrect the essentially Aristotelian moral critique of an economic theory which had been masquerading for centuries as pseudo-physics and therefore immune to criticism, and 2) "individualist society was too aimless, too disintegrated, and too hopelessly materialistic to present an unbroken front against so compact a doctrine."⁵⁶

Spann feels that Marxism made such dramatic inroads in German culture because Feuerbach and his positivist successors had turned their back on the achievement of Kant and Fichte and the German idealist tradition. Marx and the generation which came to intellectual power following the death of Goethe in 1832 and Hegel a year before prided themselves on being scientific, and in doing so they opened the door for the return of Newtonian materialist, individualist economics of the sort that Kant and Fichte had exorcized from the German soul over half a century before. As was the case in the Gospel, the empiricist demon which got driven out by Kant and Fichte was replaced by seven even more pernicious demons when Karl Marx adopted Ricardo's economic theories and turned them into a weapon to overturn the social order.

Endnotes

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- 14 Engels, p. xxvi.
- 15 Roman Szporluk, *Communism and Nationalism: Karl Marx versus Friedrich List*, (New York: Oxford University Press, 1988), p. 21.
- 16 Szporluk, p. 149.
- 17 Szporluk, p. 1.
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- 19 See E. Michael Jones, *The Jewish Revolutionary Spirit* (South Bend, IN: Fidelity Press, 2009).

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- 21 Szporluk, p. 23.
- 22 Szporluk, pp. 30-1.
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- 24 Szporluk, p. 31.
- 25 Szporluk, p. 26.
- 26 Szporluk, p. 27.
- 27 *The Marx-Engels Reader*, p. 48.
- 28 Horowitz, p. 119.
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- 30 Horowitz, p. 120.
- 31 Horowitz, p. 74.
- 32 *The Marx-Engels Reader*, p. 48.
- 33 Szporluk, p. 25.
- 34 Szporluk, p.27.
- 35 Ibid.
- 36 Horowitz, p. 118.
- 37 Horowitz, p. 125.
- 38 Szporluk, p. 32.
- 39 "Comparative advantage," *Wikipedia*, http://en.wikipedia.org/wiki/Comparative_advantage. Comparative advantage was first described by David Ricardo, who explained it in his 1817 book *On the Principles of Political Economy and Taxaton* in an example involving England and Portugal.
- 40 Othmar Spann, *The History of Economics*, (New York: W.W. Norton & Company, Inc.), 1930, p. 220.
- 41 Szporluk, p. 40.
- 42 Szporluk, pp. 40-1.
- 43 Szporluk, p. 41.
- 44 Szporluk, p. 42.
- 45 Szporluk, p. 44.
- 46 Szporluk, p. 47.
- 47 Szporluk, p. 33.
- 48 Szporluk, p. 36.
- 49 Szporluk, p. 37.
- 50 Szporluk, p. 39.
- 51 Spann, p. 217.
- 52 Spann, p. 233.
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Chapter Seventy-Four

The Irish Potato Famine

In discussing the failure of classical economics in his day, Friedrich List attacked Parson Malthus as its most famous living representative. Because Malthus failed to understand that productive power was the nation's true source of wealth, he fell into "the error of wishing to restrain the increase of population"¹ instead of allowing human productivity its full rein and human reason a larger role in arranging for more equitable distribution of the surplus value which human labor created.

Malthus's erroneous views on population flowed from his failure to see that the inventiveness of human labor always outstrips the increase of the population. List minces no words in condemning the theory of Malthus as "contrary to nature," as well as "destructive to moral energy—in one word, horrible!—" because:

It asks us to shut our hearts and our hands to the hungry, for in giving them food and drink, we may be the cause, perhaps, that thirty years hence another may be famished. It substitutes calculation for pity. Such a doctrine would turn the hearts of men into stones. And what should we expect from a people with hearts of stone, but the complete ruin of morals, and consequently, the destruction of productive power, the loss of capital, civilization, and the political power of the country.²

In denouncing Malthus, List unwittingly provided an epitaph for England, its economic system, and, more importantly, the ruling class which administered the empire of laissez-faire. List understood that laissez-faire economics, rooted as it was in the *Theory of Moral Sentiments* propounded by Adam Smith and his mentor David Hume, led inexorably to moral degeneracy. This was nowhere more true than in the English landed aristocracy, who, during the 19th century, frittered away the productive capacity of their lands in an orgy of ostentatious spending, mansion building, licentiousness, and gambling.

The inevitable result of this collective self-indulgence became apparent by the middle of the 19th century as ruinous unrepayable debt. According to David Cannadine, "a significant characteristic of this new British aristocracy," i.e., the one which came into being during the years surrounding the Napoleonic wars, "was a relatively high degree of indebtedness."³

Debate over the magnitude and consequences of the debt began in the 1950s, largely between Professor David Spring and Professor F.M.I. Thompson. Spring claimed that "widespread financial embarrassment" and the "heavy indebtedness" were . . . "often to be found among the older landed

families . . . resulting from heavy and accumulated family charges, from electoral extravagance, from the expense of house building, and from the high living of the Regency period.⁴

Thompson contested Spring's view by defending the usefulness of borrowing money, but the evidence which Cannadine brings forth not only supports Spring's claim about the indebtedness of the landed aristocracy, it also undermines Spring's claim that they were able to get out of debt. In general the only way that the landed aristocracy ever got out of debt was by selling off their property to their creditors. By the time that Burke's *Landed Gentry* rolled off the presses in 1937, fully one-third of all the aristocratic families mentioned had lost their ancestral lands.⁵ The trajectory was clear. Over the course of the 19th century, moral degeneracy led to extravagant spending; extravagant spending led to debt; debt led to foreclosure, and foreclosure to loss of land. This trajectory of high living on borrowed money explains "the aristocracy's weakened position at the end of the 19th century."⁶

As was so often the case, the decline began with the Reformation, which began with the theft of Church property and the revocation of the traditional Catholic ban on usury. As soon as the upstart aristocracy stole Church lands, they immediately sought out money-lenders so that they could monetize the fruit of their theft. Then as now, leverage set off a real estate bubble, which led to rack-renting and enclosure, as landlords tried to grind their tenants to make their mortgage payments in the hope that they could unload their inflated properties at a profit before the usury burden ruined them. Shakespeare's *Timon of Athens* trenchantly describe the orgy of high living that theft of land and borrowed money enabled in 16th century "reformed" England. Because land became an inflated object of speculation, constant debt became part of what it meant to be member of the landed gentry. "Debt," according to Cannadine,

was a constant feature of life for the early modern aristocracy, the only means by which expenditure and income, both of which fluctuated, but rarely together, could be reconciled. It seems to have been between the years of 1580 and 1610 that the nobility first became heavily dependent on credit, and by 1641 the total indebtedness of the peerage amounted to approximately 1.5 million pounds.⁷

After a momentary pause in the rate of rising indebtedness during the second half of the 17th century, debt continued its inexorable rise during the course of the 18th century, largely because:

legal refinements in the terms of mortgages, the decline of the rate of interest, the evolution of the "West End" banks, the advent of insurance companies, the development of the provincial mortgage market, and the professionalization of estate management, made it much easier for the landowner to borrow.⁸

The flight of capital from the German principalities to England which

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Napoleon caused when his army headed east was best symbolized by Nathan Rothschild's arrival in London with the prince of Hesse-Kassel's treasure. It bespoke a huge amount of capital which the Rothschild family and other German Jews could lend at interest to the English landed aristocracy, which had always considered itself cash poor because of the Whig monopoly on the Bank of England's financial resources. As a result of this windfall of continental capital seeking a safe haven in England, "total aristocratic indebtedness" increased dramatically.

By the early 19th century, "some degree of indebtedness was a familiar condition" for the landed aristocracy, as well as for "their immediate ancestors, their relatives and their friends. And recent research suggests that this continued to be the case throughout the 19th century, not just for the first 50 years or so."⁹ After 70 years, compound interest on floating loans makes them unrepayable. As the Habsburgs discovered to their chagrin in the 16th century, not even the ownership of every gold and silver mine in the New World can compete with the inexorable, exponential nature of compound interest. And so it should come as no surprise that 70 years after the boom in lending began in 1780 the first of a number of increasingly spectacular defaults took place. In 1848, the second Duke of Buckingham and Chandos went bankrupt with debts "in excess of 1.5 million pounds, 950,000 pounds of which had been borrowed between 1839 and 1845."¹⁰ Over the next twenty years, a procession of aristocrats which included the Earl of Mornington, the Duke of Beaufort, the Duke of Newcastle, the Earl of Winchilsea, and Lord De Mauley followed Buckingham to the bankruptcy courts.¹¹

The main way the profligate landed aristocracy paid off their debts was by selling off their land. "Distant properties, to which there was little sentimental attachment," Cannandine tells us, "were usually the first to go. . . . The Dukes of Portland sold part of their Cumberland estate, Coke of Norfolk sold out in Buckinghamshire, the Duke of Bedford sold some of his Bloomsbury acres, the Duke of Marlborough sold his Waddesdon estate, and Lord Carrington sold extensively in Wales and Bedfordshire."¹² Sales of art and family heirlooms followed in second place as the favorite way to discharge debt. But for the most part, the race against compound interest on a floating debt was doomed to failure.

As a result, the landed families of England, Ireland and Wales reconciled themselves to permanent debt and hoped that their limited resources, usually derived from rack-renting their increasingly burdened tenants, could keep up with the interest payments alone. As a result, "sustained indebtedness" became part of "the immutable order of things"¹³ for many landed dynasties and rack-rent became part of the immutable order of things for their increasingly impoverished tenants as the gentry tried to pass the usury burden which their estates incurred to support their lavish

life-styles down the economic food chain to the hapless peasantry.

What was true of England was *a fortiori* true of Ireland, where religious difference, absentee landlordism, and the ideology of English laissez-faire Capitalism all collaborated in disrupting any lasting moral relationship between the landlord and his tenants. No matter how spectacular aristocratic debt was in England, it was greater in Ireland, where "the burden weighed more heavily on small estates than on greater accumulations of land."⁴ O'Grada claims that "In England around this time, it was commonly held that land was mortgaged to bout one-half its value, or that servicing debt absorbed about half the gross rental income."⁵

The situation was significantly worse in Ireland, "The Downshires' debts on their Irish estates fluctuated between 250,000 pounds and 400,000 pounds."⁶ This meant that in Ireland more than 50 percent of all rental income went directly to interest payments, which meant that Irish landlords were forced by the usury system to grind their tenants even more than English landlords, and, even more significantly, the resources of the Irish landlords were thin to non-existent when the burden of famine relief was transferred from the British treasury to the local poor rates. The usury burden on Irish land was a sleeping menace to the Irish poor because it was the usury-burdened estates which were supposed to bear the burden of poor relief in time of need.⁷

List's indictment of capitalism and the moral bankruptcy of England's ruling class elites received vindication from an unexpected quarter when the potato crop failed in Ireland in the fall of 1845. In early August 1845, Sir Robert Peel, the British Prime Minister, received a report from the Isle of Wight claiming that a strange new disease had devastated the potato crop there. Potatoes which seemed healthy at the beginning of the growing season (and even after they were harvested) would turn inexplicably into a black, stinking mass of corruption almost over night. Potato blight, as it was commonly called, made its first appearance in America in the previous year. Before that the disease was unknown.

At the beginning of July, which was dry and hot in 1845, the potato crop in Ireland seemed more promising than usual. Then the weather turned rainy for three weeks, and the potatoes turned mysteriously black and rotted in the fields. By the end of August, Dr. John Lindley, the first professor of botany appointed in the University of London, was trying to explain to his readers the magnitude of the looming catastrophe. "A fearful malady," he wrote, "has broken out among the potato crop. On all sides we hear of the destruction. In Belgium the fields are said to be completely desolated. There is hardly a sound sample in Covent Garden market As to cure for his distemper, there is none . . . We are visited by a great calamity which we must bear."⁸

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Observers who tried to discern a cause often fell into the post hoc ergo propter hoc fallacy by ascribing to rain the causality for the disease which followed. We know now that that was not the case. The necessary condition for the potato blight was rain, but the sufficient cause was a fungus, known by the scientific name of *phytophthora infestans*. The disease made its first appearance along the Atlantic coast of North America in 1842. During that year, potatoes which grew anywhere between Boston and Nova Scotia turned into a black stinking mass before they could be harvested. The blight didn't cross the Atlantic then because "the fungus was killed by heat in the slow passage"¹⁹ in the holds of sailing ships. When the advent of the steam ship shortened that journey by days, the difference was enough to allow the fungus to cross the Atlantic and lie dormant until the proper conditions for its spread emerged.

The main condition necessary for the spread of *phytophthora infestans* was moisture, which was always abundant in Ireland but excessively so during the summer of 1845. Because of its mild climate and abundant rain, Ireland provided "ideal conditions for the spread of the fungus, and has been truly described as a forcing house for blight."²⁰ If the conditions were right:

one diseased plant within a day or two releases several million spores each one of which is capable of dividing within itself and producing a swarm of smaller spores. If a number of slightly diseased seed potatoes have been planted in different places, and diseased shoots appear in any quantity, blight can become general in a few weeks. Countless millions of spore containers germinate hourly; germ-tubes work their way into leaf and tuber, reducing green and healthy plants to decay; fields are seen to turn black; tubers hastily dug collapse into stinking masses, and the fearful stench of decomposition hangs over the land.²¹ If the potato were a human being, *phytophthora infestans* brought about a situation in which its victims were being simultaneously choked and devoured by "growths of some weird and colorless seaweed issuing from his mouth and nostrils, from roots which were destroying and choking both his digestive system and his lungs."²²

Terror soon spread through the Irish population. The Irish were no strangers to hunger—more than two million people went hungry every year in Ireland whether the potato failed or not²³—but the devastation which this new, hitherto unknown disease created during the fall of 1845 was unprecedented in scale. Worse than that, no remedy seemed to help: "Whether ventilated, desiccated, salted, or gassed, the potatoes melted into a slimy, decaying mass; and pits, on being opened, were found to be filled with diseased potatoes."²⁴

It would be two decades before the cause of the potato blight was found to be a fungus, and even longer before the French discovered a way to thwart it. One of the most bewildering aspects of the blight was its newness. Po-

tatoes were hardly a novelty. By the time the crop failed in Ireland in 1845, "Potatoes had been grown in most European countries for 200 years. . . ." ²⁵ But nothing as catastrophic as the blight had occurred during that time, and so no one had the faintest idea of what to do when it appeared.

When *phytophthora infestans* struck in 1845, the potato crop failed all across Europe. This caused hardship in England where:

During the previous 50 years potatoes had assumed a dangerous importance in the diet of the English laboring classes. Hard times, the blockade during the Napoleonic wars, the unemployment and wage cutting, which followed since the declaration of peace after Waterloo, had been gradually forcing the English laborer to eat potatoes in place of bread, and on September 30, 1845, the Times reported that in England the two main meals of a working man's day now consisted of potatoes. ²⁶

If the blight had occurred within years of its introduction to European soil, the subsequent damage would have been minor. But the fact that it occurred after the potato had become a staple of the working class diet meant severe hardship in most countries and catastrophe in Ireland, where it had replaced bread as the staff of life. What was "a shocking calamity for the poor" ²⁷ in Holland, France, and Belgium became an unmitigated disaster in Ireland, where in the end a million people, or one-eighth of the entire population, would die. The same blight which produced hardship for the poor in England and on the Continent caused starvation in Ireland because for the overwhelming majority of the laboring agricultural classes in Ireland, potatoes were the only source of food.

Unlike governments on the continent, which began buying up surplus grain from America almost immediately, the British government was slow to respond to the looming catastrophe. Two months after receiving the initial reports that the potato crop had failed, Sir Robert Peel still hadn't done anything. On October 13, 1845, he justified his inactivity and the fact that he had ignored the early reports by claiming that "There is such a tendency to exaggeration and inaccuracy in Irish reports, that delay in acting on them is always desirable." ²⁸ Peel ignored the reports largely because of his attitude toward the Irish people. As Chief Secretary Peel had not only shown "no liking for the Irish character" as well as "no sympathy with Irish aspirations"; he, in fact,

"cordially detested Irish life," and had identified himself with the extreme Irish party. Year after year he had opposed the motions for Catholic emancipation and for enquiry into the state of Ireland. . . . Peel, when Chief Secretary of Ireland, frequently rose after dinner and assuming the traditional attitude, "standing on his chair with one foot on the table," drank the Orange toast, to "the pious, glorious and immortal memory of William III." These and similar activities led O'Connell to give him the nickname, by which he is still remembered in Ireland, of "Orange Peel." ²⁹

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Peel, whose efforts to relieve the famine in Ireland far exceeded those of those who succeeded him in office, was typical of the British administrator of his age, whose humanity in the face of unbelievable suffering was always at odds with his religious beliefs and, more importantly, his economic theories. Taken together, the combined effects of Protestantism and Capitalism far outweighed the blight as the cause of starvation during the years 1845-49. The main cause of the Great Famine was not *phytophthora infestans*, but rather English Protestantism, especially if we take Capitalism as the ultimate expression of the cultural form which the Reformation had taken by the middle of the 19th century.³⁰

The main cause of poverty in Ireland in the years leading up to the famine was the confiscation of Catholic land by Protestant invaders. Over the centuries, following the Reformation and conquests by figures like Cromwell, the land had been stolen from the natives and distributed to English freebooters, who used religious difference as an excuse to grind their Irish tenants and reduce them to a poverty so severe that it was unknown in any other part of Europe. Wherever the English ruled, markets took priority over human need during famine. As Sen points out, this was not only the case in Ireland during the famine of the 1840s when "the indisputable fact that huge quantities of food were exported from Ireland to England throughout the period when the people of Ireland were dying of starvation" created anger and "embittered relations between the two countries."³¹ The same prioritization of markets over the needs of the starving humanity existed in China, "where British refusal to ban rice exports was one of the causes of an uprising in 1906."³² The same refusal led to "the famous Changsha rice riot of 1910,"³³ and to widespread famine in Bangladesh in 1974.³⁴

Lord Palmerston, born Henry John Temple, on October 20, 1784, was one of the wealthiest landlords in Ireland by the time he became famous by the middle of the 19th century, but his wealth came into existence as the result of centuries of theft. Palmerston's ancestor Sir John Temple was a member of the revolutionary Parliament and an ardent supporter of Oliver Cromwell's bloody Irish campaign of the 1640s. Sir John's ardor was rewarded by "lands confiscated from dispossessed Irish Catholic landowners."³⁵ The Temple family's ardor for the Protestant cause only increased at the time of the Glorious Revolution, in the aftermath of which Sir John's Irish estates were again "much enlarged."³⁶ In England it is customary to ennoble thieves who have stolen exceptionally large amounts of property (petty thieves of items like spoons and bread are just as customarily hanged), and so in 1723, Sir John's grandson, Henry Temple "was given an Irish peerage and became the first Viscount Palmerston." This title "now guaranteed" the Temples "a secure position in the aristocratic firmament of 18th century England."³⁷

The Catholic Irish, like the Highland Scots, backed the Stuarts in their attempt to reclaim the throne from the usurper William of Orange. Like their Celtic cousins, the Highland Scots, the Irish Catholics lost their war against the Whigs who came to power when the Dutch usurper ascended to the throne in 1688. What followed the Catholic defeat in Ireland was no less draconian than what followed the defeat of the Highland Scots half a century later. The punitive measures following the war came to be known as the Penal Laws, which came into effect in 1695, and "aimed at the destruction of Catholicism in Ireland by a series of ferocious enactments"³⁸ which:

barred Catholics from the army and navy, the law, commerce, and from every civic activity. No Catholic could vote, hold any office under the Crown, or purchase land, and Catholic estates were dismembered by an enactment directing that at the death of a Catholic owner, his land was to be divided among all his sons, unless the eldest became a Protestant, when he would inherit the whole. Education was made almost impossible . . . The practice of the Catholic faith was proscribed; informing was encouraged as "an honorable service" and priest-hunting treated as a sport.³⁹

Edmund Burke described the Penal Laws as "a machine as well fitted for the oppression, impoverishment, and degradation of a people, and the debasement in them of human nature itself, as ever proceeded from the perverted ingenuity of man."⁴⁰

A little less than a century after Scotland joined England in 1705, Ireland became part of Great Britain when that act of union became operative on January 1, 1801. Unlike the Scottish lowlands, prosperity did not follow for Ireland, which became a dumping ground for England's surplus manufactures. Unlike Scotland, Ireland, under centuries of English domination, had never been able to develop either industry or commerce. What little manufacturing existed at the beginning of the 19th century was wiped out by the Act of Union, which allowed English manufacturers to dump excess production on the Irish market, undercutting the prices of any possible manufacturer. In the 20 years following the Act of Union, production of woolen cloth dropped by 50 percent. As a result, 75 percent of the frieze, the thick woolen cloth worn by Irish peasants, "was dumped by England."⁴¹ The result, as List could have predicted, was widespread poverty. In Mayo, "the herring fishermen were too poor to buy salt with which to preserve a catch."⁴²

Ireland's fledgling industries, deprived of the protection which tariffs afforded in Germany and the United States, collapsed and Ireland became a land of poor tenant farmers. Without manufactures, Ireland could not raise the money to import food. They had to grow what they needed to survive or starve to death.

During the same period, population increased dramatically. The intro-

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duction of the potato “prompted or accommodated . . . the fastest population growth in the whole of western Europe for several decades between the mid-18th and early 19th centuries,”⁴³ and nowhere was that population growth more dramatic than in Ireland. Population growth drove up the cost of rent and led to more and more subdivision of the land, as larger and larger families tried to eke out an existence on smaller and smaller plots of land:

The consequence was the doom of Ireland. The land was divided and sub-divided again and again, and holdings were split into smaller and smaller fragments until families were attempting to exist on plots of less than an acre, in some cases half an acre. . . . As the population increased and the demand for a portion of ground grew more and more frantic, land became like gold in Ireland. . . . In a comparatively short time three, six or even ten families were settled on land which could provide food for only one family.⁴⁴

That meant that “The possession of a piece of land was literally the difference between life and death.”⁴⁵ In a land where rents were enormously expensive and land forever being subdivided to accommodate larger and larger families, cultivation of the potato was the only way an impoverished family could survive. The Act of Union and the dumping which it enabled ruled out any significant employment in manufacturing, and that meant that “Unless an Irish laborer could get hold of a patch of land and grow potatoes, the family starved.”⁴⁶

Malthus’s theories of population were especially applicable to islands. As he had predicted, the increase of population led to smaller and smaller holdings. By 1845, the Irish people had reached a point where only the potato could provide the sustenance they needed from the small amount of land that was available to them to feed their families:

An acre and a half would provide a family of five or six with food for twelve months, while to grow the equivalent in grain required an acreage four to six times as large and some knowledge of tillage as well. Only a spade was needed for the primitive method of potato culture usually practiced in Ireland.⁴⁷

It would be deceptive to refer to the potato culture as the basis of the Irish economy because it was essentially outside of the economy. When it came to the staple of the Irish diet, no economic exchange was involved. Most of the people in Ireland fed themselves from what they raised on their own plots. When the Irish peasant received money, he generally hid the coins in the thatched roof of his cottage. It was only when he ran out of the potatoes that he had grown himself for his family, that the Irish agricultural laborer entered the economy. If the potatoes ran out, the peasantry would have to buy meal “on credit, at exorbitant prices, from the petty dealer and usurer who was the scourge of the Irish village—the dreaded ‘Gombeen man.’”⁴⁸

Citing "Joel Mokyr's classic question about the Irish famine," O'Grada wonders "Was Malthus right?" in his analysis of the Irish economic and demographic situation, and concludes that "On this reading the famine was not simply bound to happen; had the potato blight somehow missed Ireland, economic adjustment would have come gradually through an increase in the demand for Irish labor abroad and increasing incidence of the preventative check."⁴⁹ In other words, Malthus was not right, not over the short run or the long run under normal conditions.

But conditions in Ireland in the 1840s were far from normal, and the potato blight didn't miss Ireland. When it occurred, the intellectual descendants of Adam Smith, whose morals had been corrupted by the ethical theories emanating from the Scottish Enlightenment, exposed the intellectual and moral bankruptcy of classical economics in a way that was irrefutable to the common man and which left a permanent scar on the Irish psyche. The Communist Manifesto was written during the height of the Irish potato famine. The Irish potato famine was traumatic enough, but combined with the Revolution of 1848, it exposed the moral bankruptcy of classical economics. It also helped grant, by contrast, a legitimacy to Communism, which that ideology did not deserve, and it removed forever the possibility of any peaceful union between England and Ireland.

Parson Malthus had been dead for 11 years by the time the blight arrived in Ireland and so we have no way of knowing how he would have reacted to the existential reality of so much intense human suffering. But we do know how classical economics reacted because we have the testimony of its most prominent defender, Nassau Senior, who famously claimed that the famine "would not kill more than one million people, and that would scarcely be enough to do any good."⁵⁰ Benjamin Jowett, the famous Oxford don, claimed that he had "always felt a certain horror of political economists," ever since "I heard one of them say that he feared that the famine of 1848 in Ireland would not kill more than a million people, and that would scarcely be enough to do much good."⁵¹

Jowett could generalize his indictment of Senior to include all "political economists" because by 1845 virtually every English politician who had responsibility for administering Ireland its hour of greatest need shared Nassau Senior's view on the relationship between economics and morality. *Phytophthora infestans* may have destroyed the potato crop, but the main cause of starvation in Ireland between 1845 and 1849 was capitalism, which Woodham-Smith refers to as "laissez faire," an English economic theory which:

let people do as they think best, insisted that in the economic sphere individuals should be allowed to pursue their own interests and asserted that the government should interfere as little as possible. Not only were the rights of property

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sacred; private enterprise was revered and respected and given almost complete liberty, and on this theory, which incidentally gave the employer and the landlord freedom to exploit his fellow man, the prosperity of England had unquestionably been based.⁵²

Ireland's poverty was the mirror image of the rise of Capitalism. Ireland was the converse of the economic development that took place in England, but the trajectory was the same. It began with the theft of land during the Reformation and it ended during the hey-day of laissez-faire economics, when politicians thought it more virtuous to let a million people starve to death than violate one tenet of political economy. "The Influence of laissez-faire on the treatment of Ireland during the famine," Woodham-Smith continues:

is impossible to exaggerate. Almost without exception the high officials and politicians responsible for Ireland were fervent believers in non-interference by Government, and the behavior of the British authorities only becomes explicable when their fanatical belief in private enterprise and their suspicions of any action which might be considered Government intervention are borne in mind.⁵³

All of the government actors in the Irish potato famine drama were intellectual hostages to the economic philosophy of laissez-faire capitalism. The ideology which derived from Adam Smith's *Wealth of Nations*, as expounded by contemporary economists like Nassau Senior, established limits on English intellectual horizons—and hence on government action—which were inviolable.

Government officials like Sir Robert Peel and, more importantly, Edward Charles Trevelyan, who served as undersecretary of the treasury from 1840 to 1859 and the main administrator of famine relief, were aware that the potato crop had failed and that, as a result, large numbers of the Irish peasantry were faced with starvation, but their ability to act on these perceptions became inexplicably paralyzed when they construed them in the light of what they had learned from the Scottish Enlightenment in terms of economics and morals. Both Peel and his successor Lord John Russell, as well as Trevelyan and his collaborators at the treasury, felt that the government could only remedy the famine "without government interference" in the market through:

the operations of private enterprise and private firms using the normal channels of commerce. The Government was not to appear in food markets as a buyer, there was to be "no disturbance of the ordinary course of trade" and "no complaints from private traders" on account of Government competition.⁵⁴

The government, in other words, could not function as the government, and on that self-contradictory note Peel embarked upon his program of famine relief, when circumstances forced him to act.

By mid-October 1845, Peel could no longer dismiss as typically Irish

exaggeration reports emanating from Ireland on the failure of the potato crop. In order to find the true magnitude of the problem, he dispatched John Lindey, a professor of the new science of botany at London University and Lyon Playfair, a chemist, on a fact-finding mission to Ireland. Their reports made it clear that the danger to the Irish population was real, and that immediate action was needed to remedy a situation that could quickly turn catastrophic.

The gravity of the situation in combination with the economic "laws" of laissez-faire economics led Peel to conclude that the only way to rectify the situation without violating the laws of the market was to repeal England's corn laws. According to the free trade school of thought, which reached its apogee in England during the 1840s, once the tariff was removed, the price of grain would fall, and once it fell, the starving Irish would be able to buy more grain at lower prices, thus bringing the famine to an end.

Peel, it should be remembered, was a Tory, and as such a representative of the landowning classes who benefited directly from the artificially high prices which the tariff created in grain. Peel's party may have supported the grain laws, but Peel by birth was a free-trader whose wealth came from his family's textile mills, a group which was notorious in its support for free trade. When push came to shove, nurture triumphed over politics in forming Peel's mind. He had come to power in 1841 as the head of a conservative Tory ticket committed to maintaining the corn laws, but he personally believed in the dogmas of free trade and felt that they alone could "revive the languishing commerce and manufacturing industry of this country" and "make this country a cheap country for living."⁵⁵ When he proposed suspending the duties on grain, in light of what he had learned about the situation in Ireland, only three members of his cabinet supported him. By December Peel had resolved to resign if his cabinet did not support repeal of the grain tariff.

In an attempt to balance his compassion for the suffering Irish⁵⁶ with what his economic principles allowed, Peel secretly arranged for the purchase of Indian maize from American markets through the merchant banking house of Baring,⁵⁷ because its importation did not interfere with market forces. Peel's decision was a mixed blessing because, no matter what good it did over the short run, it situated all relief efforts within the matrix of what the market allowed. Woodham-Smith claims that Peel's

purchase of Indian corn proved the decisive factor in relieving the distress of 1845-46 but the subsequent value to Ireland of Peel's boldness, independence and strength of mind was unfortunately outweighed by his belief in an economic theory which almost every politician of the day, Whig or Tory, held with religious fervor.⁵⁸

This meant that if the ideology of the market proved inadequate as

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the basis of relief, the Irish would starve to death. Peel chose maize as the vehicle for famine relief because “no trade in Indian corn existed,” and therefore the purchase of a commodity “virtually unknown as food in Ireland or any other part of the United Kingdom” would “not interfere with private enterprise.”⁵⁹ Peel planned to use his stock of Indian corn as “a weapon to keep prices down.”⁶⁰ Woodham-Smith calls Peel’s plan “far-seeing and ingenious,”⁶¹ but it had a number of serious drawbacks. To begin with, 100,000 pounds worth of maize could not replace 3.5 million pounds worth of potatoes, the cost of the amount of potatoes lost due to blight. Secondly, no one in Ireland had the skills or the instruments to make Indian corn edible:

Unground Indian corn is not only hard, but sharp and irritating—it even pierces the intestines—and is all but impossible to digest. Boiling for an hour and a half did not soften the flint-hard grain, and Indian corn in this state, eaten by half-starving people, produced agonizing pains, especially in children.⁶²

In order to turn it into “hominy” or “grits,” maize had to be chopped in a steel mill, and no such mills were available in Ireland. As a result, when the Indian corn first arrived in Ireland, it was indigestible because no one knew how to prepare it properly. By the time of the potato famine, Irish women had lost the ability to cook anything but potatoes. Baking flour into bread had become a lost art in Ireland because of the potato monoculture. As a result of inadequate preparation, “Trevelyan’s flint” did next to nothing to alleviate the famine and caused severe gastro-intestinal disorders in those who ate it.

Endnotes

- 1 Friedrich List, *National System of Political Economy* (New York: Garland Publishing, Inc., 1974), List, p. 201.
- 2 List, p. 205.
- 3 David Cannadine, *Aspects of Aristocracy: Grandeur and Decline in Modern Britain* (New Haven and London: Yale University Press, 1994), p. 2.
- 4 Cannadine, p. 37.
- 5 Cannadine, p. 52.
- 6 Cannadine, p. 38.
- 7 Cannadine, p. 39.
- 8 Ibid.
- 9 Ibid.
- 10 Ibid.
- 11 Cannadine, p. 40.
- 12 Ibid.
- 13 Cannadine, p. 41.
- 14 Ibid.

15 Cormac O'Grada, *Black '47 and Beyond: the Great Irish Famine in History, Economy and Memory* (Princeton, NJ: Princeton University Press, 1999), p. 129.

16 Cannadine, p. 41.

17 The example of aristocrats mortgaging half their land and having interest rates gobble half their rent suggests that interest rates were close to rental yields, i.e., rent divided by real estate value. William Petty gave some attention to the question of what interest rates should be and concluded that they should be similar to land rents. His investigation into this question also included the question of what the appropriate balance is between the return to labor and the return to land. That balance was dubbed the question of the PAR. Petty's solution meant that there was little benefit to borrowing against land investment unless there was capital growth to boost the rental return. Speculation was done on this basis, but sometimes capital gain was caused by no more than the bubble effect induced by speculative optimism and easy debt. That means that it was highly risky but borrowers were invariably drugged by optimism and greed.

18 Cecil Woodham-Smith, *The Great Hunger: Ireland 1845-1849* (London: Penguin, 1962), p. 40.

19 Woodham-Smith, p. 95.

20 Woodham-Smith, p. 98.

21 Woodham-Smith, p. 101.

22 Woodham-Smith, p. 99.

23 Woodham-Smith, p. 32.

24 Woodham-Smith, p. 47.

25 Woodham-Smith, p. 94.

26 Woodham-Smith, p. 39.

27 Ibid.

28 Woodham-Smith, p. 40.

29 Woodham-Smith, p. 42.

30 Cf. Amartya Sen, *Poverty and Famines* (New York: Oxford University Press, 1981). Sen claimed that the Irish famine was economic not physical and that this characteristic was shared with all (or most) major famines in the last couple of centuries. He received a Nobel Prize for his work which is in itself a powerful critique of capitalism focused on the way that markets malfunction.

31 Sen, p. 161.

32 Ibid.

33 Ibid.

34 Ibid.

35 Denis Judd, *Palmerston* (London: Weidenfeld and Nicolson, 1975), pp. 1-2.

36 Judd, p. 2.

37 Ibid.

38 Woodham-Smith, p. 27.

39 Ibid.

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- 40 Ibid.
- 41 Woodham-Smith, p. 32.
- 42 Ibid.
- 43 O'Grada, p. 14.
- 44 Woodham-Smith, p. 32.
- 45 Ibid.
- 46 Ibid.
- 47 Woodham-Smith, p. 35.
- 48 Woodham-Smith, p. 36.
- 49 O'Grada, p. 29.
- 50 "Nassau William Senior," *Wikipedia*, http://en.wikipedia.org/wiki/Nassau_William_Senior.
- 51 Woodham-Smith, pp. 375-6.
- 52 Woodham-Smith, p. 52.
- 53 Ibid.
- 54 Woodham-Smith, pp. 54-55.
- 55 Marjie Bloy, "The Campaign for the Repeal of the Corn Laws," *The Victorian Web*, last modified April 1997, <http://www.victorianweb.org/history/cornlaws2.html>.
- 56 Woodham-Smith, p. 43: "however little liking Peel might feel for the Irish people he could be relied upon never to allow his feelings to influence what he considered to be his duty toward Ireland."
- 57 Bloy, op. cit.
- 58 Woodham-Smith, p. 52.
- 59 Woodham-Smith, p. 55.
- 60 Ibid.
- 61 Ibid.
- 62 Woodham-Smith, p. 135.

Chapter Seventy-Five

The Famine and Free Trade

On 15 May 1846 the repeal of the Corn Laws was passed by a coalition of Conservatives, Whigs and free traders. Only 112 Conservatives voted for repeal; 241 voted against it. On June 26, Peel's corn bill passed the House of Lords. A few hours later the Tory government fell, largely as a result of the machinations of fellow Tory Benjamin Disraeli, and Peel was replaced by Lord John Russell, who now headed a Whig government.

Intellectually, Lord John Russell was no more sympathetic to the Irish than Peel had been, but the deficiencies in Russell's intellect were exacerbated by deficiencies of personality. Russell was so short that the caricaturists of his age routinely depicted him as a large-headed dwarf. When he married the recently widowed wife of Lord Ribblesdale, the same pundits referred to him as "the Widow's Mite."¹

Russell made up in hauteur what he lacked in stature. His manners were so arrogant, that Greville vowed "never to go near him again" after being received by Russell in "the coldest and most offensive manner."² Rigidity of intellect based on the inflexible tenets of laissez-faire capitalism combined with rigidity of character and manners to produce an administrator ill-equipped to deal with one of the greatest humanitarian disasters in the history of the British Empire.

People started dying in earnest during the fall of 1846. On October 24, Dennis McKennedy was found dead during his shift working on road No. 1 in West Carberry, County Cork. After a post-mortem examination discovered that there was no food in either his stomach or small intestine, Drs. Daniel Donovan and Patrick Due concluded that McKennedy had "died of starvation caused by the gross neglect of Board of Works." The charge of neglect referred to the fact that McKennedy was involved in a public works project that the English authorities had concocted in lieu of providing food for the starving Irish.

To add insult to injury, the Crown insisted not only that the starving Irish work for what was quite literally a starvation wage, but it could not pay its Irish workers on time, even when prompt payment was, as in this instance, a matter of life and death. McKennedy died with the government owing him two weeks' salary. One week later in Bandon, more people died whose wages were three weeks in arrears. On November 3, the Lord-Lieu-

tenant "called for a report of the number of persons who had died from starvation because their wages were delayed."³

Reports of some of the worst abuses came from the town of Skibbereen, where the starving poor were crowded into that town's overcrowded workhouse because "outside relief" was not available. Overcrowding quickly led to the spread of disease, and diseases like typhus and dysentery led to death:

Between early October 1846 and early January 1847, 266 people died in the packed workhouse in Skibbereen, compared to ten in the same period a year earlier, and 11 two years earlier, and by the end of 1846 one inmate in four was suffering from either fever or dysentery. The workhouse was already "full to suffocation" by then.⁴

The workhouse was overcrowded because Trevelyan, who was the chief administrator of poor relief under both Peel and Russell, had decreed that the poor had to work in order to get relief. The wage Trevelyan offered to the starving Irish during one of the coldest winters in recent memory was, quite literally, a starvation wage; it was "not adequate . . . to support life."⁵ The average worker received eight pence per day, which he could then spend on Indian meal, which because of market forces had risen to 2s. 5d. per stone of 14 lbs: "At these prices you can easily suppose that a working man with a family of six persons (which is about the average number) cannot procure for them even one tolerable meal out of his miserable earnings, supposing him fortunate enough to get employment, and to be able to work every day, which is impossible in this inclement season."⁶

In order to augment his inadequate wages, the Irishman was forced to send his wife and children out on the roads to work with him, which led one observer in December of 1846 to describe:

a gang of 150, composed principally of old men, women and little boys, going out to work on one of the roads near the town [near daybreak]. At that time the ground was covered with snow, and there was also a very severe frost; seeing that they were miserably clad, I remarked to a bystander that it was a miracle that the cold did not kill them, even though they had enough to eat. In less than half an hour after one of them, an old man, named Richard Cotter, was brought on a man's back dying, and I had to give a cart to take him home. In the course of the day I went out to visit this gang, who were opening a drain inside the fence on the Marsh road, and such a scene I hope I may never again be called upon to witness. The women and children were crying out from the severity of the cold, and were unable to hold the implements with which they were at work; most of them declared that they had not tasted food for the day, while others said that but for the soup supplied by the Committee they must starve. The actual value of the labor executed by these could not average two pence each per day, and to talk of task work to such laborers would be ridiculous.⁷

The cause of this deadly folly was capitalism. Instead of granting starving and miserably clad women and children "some temporary relief in their

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own homes during this severe weather," Russell, Trevelyan and the other proponents of laissez-faire economics condemned the Irish "to sacrifice their lives to carry out a miserable project of political economy."⁸

Rather than feed the starving Irish, Trevelyan and Britain's newly-appointed chancellor of the exchequer, Charles Wood, decided that hunger would be alleviated by employing the Irish in a large-scale public works project. The starving Irish could now purchase food with the money which they had earned by busting rocks and building roads in the middle of the harshest winter in recent memory. Payment for public works was superior to the distribution of food because it meant that the government would not "interfere with the regular mode by which Indian corn and other grains were brought into the country." Trade would be granted "as much liberty as possible,"⁹ and the invisible hand would ensure a benevolent outcome in the end.

After deciding to halt the importation of maize, Trevelyan decided that public works, not charity, would solve the problem of famine in Ireland. Instead of money to buy food coming from the treasury in London, as it had under Peel, the entire expense of famine relief "was to be paid by the district in which the works were carried out."¹⁰ And how were the estates of Ireland which were already over-burdened by debt to find the money to pay for poor relief? By borrowing more money, of course. The cost of poor relief was "to be met by advances from the Treasury, repayable in their entirety in ten years at 3.5 percent interest, and the money for repayment was to be raised by a rate levied on all poor-rate payers in the locality. . . ."¹¹

By the early months of 1847, the inadequacy of public works as a remedy for starvation was evident to everyone but Trevelyan, who would eventually concede that the wages that public works offered did not even reach subsistence level, "melancholy proof of which was afforded by daily instances of starvation."¹²

Trevelyan's reluctance to admit the failure of his "miserable project of political economy" would have fatal consequences for the poor in Ireland. The weakness which naturally flowed from lack of food was compounded by going through the motions of working when the weather made any real work outdoors impossible, and both burdens taken together eventuated in more death. Reports at the end of November, the month when the first snow fell, "contained a rapidly-increasing number of cases of deaths on the works from starvation, aggravated by exposure to cold, snow and drenching rain."¹³ Of the 5,000 beggars who roamed the streets of Cork during the winter of 1846-7, 100 hundred died every week of exposure and starvation.¹⁴ If credit for the fact that starvation did not begin in earnest until the fall of 1846 "must go to the relief measures taken by the administration of Sir Robert Peel,"¹⁵ the responsibility for the catastrophe of 1846-47

must be laid at the feet of Sir John Russell and Charles Edward Trevelyan.

Because of the change in government which took place during the famine, the main responsibility for famine relief devolved upon Trevelyan, who served as assistant secretary to His Majesty's Treasury from 1840 to 1859. It was Peel's idea to buy Indian corn for famine relief, but Trevelyan was responsible for its distribution, an association which appeared in popular ballads like "The Fields of Athenry," which describes the fate of someone who "stole Trevelyan's corn" and was transported to Botany Bay for his pains.

Like Peel and Sir John Russell under whom he served, Trevelyan was even more of a thrall to the mind-forged manacles which laissez-faire capitalism imposed upon his class of Englishman and rendered them incapable of dealing with the tide of famine which swept over Ireland in earnest during the fall of 1846.

Trevelyan, who became first director and then virtually dictator of Irish relief, had the unfortunate habit of seeking religious justification for the injustice he imposed in the name of capitalism. This trait would go far in justifying the odium in which the communists would hold religion. When unloading food on the coast of western Ireland proved difficult, Trevelyan opined that: "It is annoying that all these harbors are so insignificant. It shows Providence never intended Ireland to be a great nation."⁶ Trevelyan claimed that "the people must not, under any circumstances, be allowed to starve," but this imperative, like every other humane feeling he entertained, had to be implemented in light of economic principles which ensured that the native hue of resolution was inevitably sicklied o'er with the pale cast of economic thought, and that any measure the government undertook "must proceed with as little disturbance as possible of the ordinary course of private trade."⁷

With his economic ideas firmly at odds with his native moral sense, it is hardly surprising that Trevelyan's plans for hunger relief rarely found fruition in effective action, nor is it surprising that his inaction "worsened the famine."⁸ Trevelyan frequently lapsed into religious-tinged fatalism when confronting the problem. When confronted with reports of "mothers half naked, shivering in the snow and sleet, uttering exclamations of despair while their children were screaming with hunger,"⁹ Trevelyan opined that "The judgement of God [had] sent the calamity to teach the Irish a lesson, that calamity must not be too much mitigated" because "the real evil with which we have to contend is not the physical evil of the Famine, but the moral evil of the selfish, perverse and turbulent character of the people."¹⁰ According to Trevelyan's moral and economic outlook, the only other possible villain in the economic drama of the Irish famine was "government interference," which, if extended any further, would deprive Ireland of "the

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funds required by farmers for carrying on the ordinary cultivation of the land.”²¹

After the Peel government fell following the repeal of the Corn Laws, Trevelyan became “virtual dictator of relief for Ireland”²² over the summer of 1846. During this period, he made a number of decisions which would prove fatal for large numbers of Irishmen. On May 15, Trevelyan opened the corn depots to sell what remained of Peel’s corn. That was certainly good news, but the unannounced bad news that accompanied this move was Trevelyan’s decision that the sale of this one batch of corn was sufficient to solve the problem: “Irish relief was to be restricted to a single operation; the government Indian corn, purchased at the orders of Sr. Robert Peel was to be placed in deposit by the Commissariat, sold to the people—and that was the end.”²³ Trevelyan’s assistant Randolph Routh was appalled, “You cannot answer the cry of want,” he wrote to Trevelyan, “by a quotation from political economy.”²⁴ But Trevelyan and Charles Wood had made up their minds that the government was no longer going to import food from abroad, and Routh, deprived of a theory of political economy grounded in the moral law, could raise no substantive objections any time they invoked the market as the solution to Ireland’s problems. So Routh capitulated, and “tried therefore to convince himself that Trevelyan’s policy was just and wise.”²⁵

By July 1846, the stores of Peel’s corn had been exhausted, and the Irish were consuming the seed potatoes that were required for next year’s planting, but Trevelyan decided that the maize which Peel had imported had solved the hunger once and for all, in spite of the fact that reports were then arriving indicating that the failure of the potato crop in 1846 was more severe than in 1845. In spite of that, the government would import no more food and would shut down the depots already in existence. Trevelyan claimed that trade had been paralyzed by government purchases and that this interference with private enterprise had denied profits to grain dealers, who had no incentive to invest in the purchase of more food. He said this in spite of the fact that he had received a letter from a noted Catholic priest on August 7, 1846 begging Trevelyan “to take some action to feed the people” and complaining that “the capitalists in the corn and flour trade are endeavoring to induce government not or protect the people from the famine but to leave them at their mercy.”²⁶

Convinced that charity was counter-productive, Trevelyan ordered Routh to close all government food depots by August 15: “The only way to prevent the people from becoming habitually dependent on Government,” he told Routh on July 17, “is to bring the operations to a close. The uncertainty about the new crop only makes it more necessary.” In a second letter he wrote, “Whatever may be done hereafter, these things should be stopped now, or you run the risk of paralyzing all private enterprise and having this

country on you for an indefinite number of years. The Chancellor of the Exchequer supports this strongly."²⁷

Trevelyan's decision to stop the distribution of Peel's corn during the summer of 1846 led to food riots in the fall. When the "turbulent" Irish attempted to stop the wagons and ships which were exporting food while the people starved, Trevelyan sent troops, as well as ample provisions to feed them, but nothing for the starving Irishmen the troops were sent to subdue. "Do not encourage the idea of prohibiting exports," he wrote on September 3, "perfect Free Trade is the right course."²⁸

Instead of sending food, Trevelyan sent troops to protect the exportation of grain. After the Irish began rioting and cutting the traces on the wagons that carried food for export to the ships waiting on the river Shannon, the British government sent 2,000 troops to protect grain exports, and Trevelyan, who had discontinued Peel's importation of maize:

arranged for the provisioning with beef, pork and biscuit, of 2,000 troops formed into mobile columns "to be directed on particular points at very short notice." Provisions for six weeks were sufficient, wrote Trevelyan, because "food riots are quite different from organized rebellion and are not likely to be of long duration."²⁹

O'Grada claims that:

One of the most evocative images of the Irish famine is of a people being left to starve while their corn was being shipped off under police and military protection to pay rents. Indeed, Dreze and Sen write of "English consumers attract[ing] food away, through market mechanism, from famine stricken Ireland to rich England, with ship after ship sailing down the river Shannon with various types of food."³⁰

During the harvest season of 1846, the starving Irish watched helplessly as "boatloads of home-grown oats and grain departed on schedule from their shores for shipment to England," and anger replaced resignation:

Food riots erupted in ports such as Youghal near Cork where peasants tried unsuccessfully to confiscate a boatload of oats. At Dungarvan in County Waterford, British troops were pelted with stones and fired 26 shots into the crowd, killing two peasants and wounding several others. British naval escorts were then provided for the riverboats as they passed before the starving eyes of peasants watching on shore.

The government claimed that sending food (but not troops) to Ireland would be "unjust to the rest of the United Kingdom."³¹ Feeding the Irish, Trevelyan opined was "to transfer famine from one country to another."³² So the government sent soldiers instead: "Would to God the Government would send us food instead of soldiers," a starving inhabitant of Ballinrobe, County Mayo, was heard to lament as the 7th Hussars entered the town."³³

Contrary to what Trevelyan thought, Capitalism functioned just as

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anyone who was familiar with its ruthless logic could have expected during the entire five-years of the potato famine. During December 1846, the domestic market reacted to the government's withdrawal from providing food, and prices skyrocketed as speculators made fortunes by buying up stocks of Indian corn cheap and selling it dear to the starving who still had any money left to buy it. Even those who were outraged by the price-gouging in foodstuffs found that their moral objections, like those of Mr. Hewtson of Cork, who "complained of merchants making 40 to 80,000 pounds on corn" were undermined by economic principles which convinced them that the gouging was conducted "according to the spirit of trade and therefore legitimate."³⁴ Acting according to what the German socialist Ferdinand Lassalle described as the "Iron Law of Wages," Trevelyan forced the Irish to work for the lowest possible wages while simultaneously insuring that no restraint whatsoever would be put upon those bent on the most ruthless sort of price gouging. The results of this Manchesterian mumbo-jumbo became apparent in February when 250 ships full of 50,000 tons of food lay waiting unloaded in Cork harbor because "prices were too high for the people to pay."³⁵ The market which Trevelyan counted on to alleviate Ireland's hunger accelerated starvation by driving prices up: Public works were "not saving the people from starvation on account of the enormous rise in food prices"³⁶ in combination with the starvation wages which the glut in the labor market and the monopoly which the British government had as the island's only employer of agricultural workers.

There was no point in complaining about price-gouging capitalists to Trevelyan, as Father Matthew had done, because Trevelyan defended price gouging as a legitimate part of free trade economic theory. When prices rose in October to the point where even those who earned wages were starving because they could not pay the exorbitant prices that the unhindered market had set, Trevelyan refused to interfere because "If dealers were to confine themselves to what in ordinary circumstances might be considered fair profits, the scarcity would be aggravated in a fearful degree."³⁷ Trevelyan's subordinate Sir Randolph Routh told the Marquess of Sligo, "We must bear in mind that if an article is scarce . . . a smaller quantity must be made to last for a longer time, and that high price is the only criterion by which consumption can be economized."³⁸ Trevelyan felt that nothing ought to be done for the west of Ireland which might send prices, already high, still higher for people, "who, unlike the inhabitants of the west coast of Ireland, have to depend on their own exertions."

Trevelyan was convinced that the market would solve this problem. "Nothing," he wrote, "was more calculated to attract supplies and especially from North America, than high prices." The real beneficiary of Trevelyan's laissez-faire policies, however, was the "gombeen man," the hated Irish

meal-dealer and money-lender who preyed on the Irish poor in normal times during the summer before the potato harvest arrived. Trevelyan's laissez-faire policies now allowed Ireland's gombeen men to get rich at the expense of the starving poor by allowing them to "buy up whatever comes to market and offer it again in small quantities at a great price which a poor man cannot pay and live."³⁹

Trevelyan then drew a picture of what would happen in the US when high prices made themselves felt—"then down from Cincinnati and Ohio would come quantities of Indian corn, formerly used to feed pigs." Routh agreed with Trevelyan and felt that higher prices would draw corn to Ireland like a magnet. Trevelyan considered the rise in prices a "great blessing," because they were "indispensably necessary to attract from abroad the supplies necessary to full up the void occasioned by the destruction of the potato crop."⁴⁰ Hearing reports that the starvation was increasing, Trevelyan reversed himself and sent an order for Indian corn off on the last ships to leave for America in September. Unfortunately, there was no corn left in Ohio. Trevelyan's change of heart came too late for the starving Irish. Nothing would be forthcoming from America until the Spring of 1847.⁴¹ By the time Trevelyan authorized more imports, the harvest of 1846 had already been bought up by other European governments who felt that feeding their starving population was more important than adherence to the laws of laissez-faire economics. By the time Trevelyan realized his mistake, it was too late in the year to rectify it.

When it became apparent that the Government's actions were totally inadequate to the task of feeding the starving Irish, private philanthropy stepped in to supplement the shortfall which the government refused to augment and which private enterprise was determined to exploit. On November 23, 1846, the Quakers organized the Central Relief Committee of the Society of Friends in Dublin, with a branch office in London.⁴² Unlike the government, which forced the starving Irish to work for relief, the Quakers set up soup kitchens to feed the people directly. Two months later a group of wealthy Englishmen founded The British Association for the relief of the extreme distress in the remote parishes of Ireland and Scotland.⁴³ Charter members included financiers like Baron Lionel de Rothschild and Thomas Baring, who was the first chairman. The Rothschilds contributed 1,000 pounds, and Queen Victoria 2,000, but significant as the gesture was, the sums collected were nothing more than the proverbial drop in the bucket of Irish suffering.

When he heard that the government had allotted 50,000 pounds for famine relief in Ireland, Archbishop John MacHale reminded Lord John Russell that England had spent 20 million pounds to emancipate the Negroes of the West Indies.⁴⁴ To propose 0.25 percent of that sum for people

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who were not in need of emancipation but starving to death seemed to be nothing more than mockery of the very charity it proclaimed, especially since the "scenes which presented themselves were such as no tongue or pen can convey the slightest idea of."⁴⁵ By the time the winter of 1846-7 arrived, even the people who had found refuge in the workhouses were dying of starvation. Outside the workhouses, the situation was even worse. During November 197 people had died in the Skibbereen workhouse and in addition to that "nearly 100 bodies had been found dead in the lanes or in derelict cabins, half-eaten by rats."⁴⁶ During the winter of 1846-7, corpses lying by the road-side half eaten by rats became a common sight.⁴⁷

Since there was not a scrap of food to be found in rural Ireland during these months, the only hope was in assistance from the outside, which could only be administered in population centers. Unfortunately, during February, food distribution by groups like the Quakers was hampered by blizzards which made roads impassable and turned the remoter parts of Ireland into towns and villages "full of starving paupers."⁴⁸ Commander Caffyn, captain of the ship that had been hired by the Quakers to deliver corn to the starving inhabitants of Skull, discovered "in one cabin four adults and three children . . . crouched silent over a fire while in another room a man and a woman . . . in bed the woman shrieking for food, the man past speech."⁴⁹ Ironically, the sons of all the adults in the cabin were fully employed by the government on a public works project, but the 8 d. a day they earned, "was not enough to keep the family from starvation."⁵⁰ The farther the Irish found themselves from the towns, the more horrors proliferated. At a farm in Caheragh, County Cork, a woman and her two children were found dead and half-eaten by dogs.⁵¹

During the winter of 1846-7, so many died of starvation and so many of the survivors were so weak from hunger that the normal procedures for funerals and the burial of the dead broke down. When the medical officer of the Tralee workshop visited that town's cemetery in April, he found half-eaten corpses strewn about the grave-yard. "Tis most revolting," he wrote:

to see the body of a child rather grown, dragged quite out of the coffin and lying on the yard totally uncovered, with one leg and one thing completely taken off and devoured by dogs which nightly prowl about this yard. Many of the coffins are completely exposed to view and the whole state of the yard is such as to cause much apprehension for the public safety. The effluvia even at present must engender and give disease to those frequenting it on the occasion of the burial of their friends.⁵²

In the parishes of Tralee, Rathass, and Cloherbrien, so many people died, that older coffins had to be disinterred before the newly deceased could be buried. As a result, "the remains of only lately interred persons, are to be seen above ground in the burial grounds of these parishes by all

passers by.”⁵³

Given sanitary conditions like this, it is not surprising that famine was followed by disease. Routh warned Trevelyan as early as July 14 that “disease is reappearing.”⁵⁴ The incidence of disease, in particular Typhus fever, which would ravage Ireland “on a gigantic scale,”⁵⁵ only increased with the advent of winter because “the abnormal severity of the winter drove the people to huddle together for warmth,”⁵⁶ and proximity allowed fever-bearing lice to transmit Typhus to new victims huddling for warmth under the same blanket. Under circumstances like this, “one fever-stricken person could pass on infection to a hundred others in the course of a day.”⁵⁷

By March 1847, typhus, bacillary dysentery and scurvy had become so rampant that medical facilities had exhausted their resources in treating the sick. When he visited the Bantry fever hospital, one doctor found:

Fever patients were lying naked on straw, the living and the dead together. The doctor was ill and no one had been near the hospital for two days. There was no medicine, no drink, no fire; wretched beings were crying out, ‘Water, Water! But there was no one to give it to them; the sole attendant was one pauper nurse, “utterly unfit.”’⁵⁸

The epidemic reached its height in Dublin in June 1847 and didn’t begin to subside until months later. Woodham-Smith estimates that ten times the number of Irish who starved to death died of disease.⁵⁹

Faced with a catastrophe of this magnitude, the government once again changed its policy. Confronted with reports of men on relief (as well as their families) starving to death because of inadequate and unpaid wages, the government, in imitation of the Quakers, decided to erect soup kitchens. The arrival of the soup kitchen was proof, if any were still needed, that the government’s policy of public works had failed. “The expenditure had been enormous, the work hopelessly inefficient” and all the Irish had to show for it were “violence, corruption and scandals.”⁶⁰ Henceforth, “soup would be distributed without any work being required in return.”⁶¹ Unfortunately, the soup was so “utterly deficient in the due supply of those materials from which the human frame can elaborate bones, tendon, blood, muscle, nervous substance, etc.,”⁶² that a doctor in Skibbereen concluded that “it was ‘actually injurious’ to the very large number of people” who ate and came down with dysentery.⁶³

The soup came nowhere near satisfying demand, but it did save lives over the summer of 1847. The fact that its distribution looked like an act of charity, however, turned the chattering classes in London against the Irish. “To convert a period of distress,” opined *The Economist*, on January 16, 1847, “arising from natural causes, into one of unusual comfort and ease, by the interference of government money, or of private charity, is to paralyze the efforts of the people themselves.”⁶⁴

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By the Spring of 1847, famine fatigue had set in, and the English newspapers started to blame the Irish for their own misery. The Irish were portrayed, not as starving victims, but as sly beggars who used the money they cadged from the well-meaning English to buy guns in preparation for an imminent insurrection. "With the money they get from our relief funds," Greville wrote in his Diary, "they buy arms."⁶⁵ English guilt for centuries of economic exploitation and the current homicidal policy of laissez-faire neglect got transmuted into one of the most flagrant examples of blaming the victim in human history. The English penchant for justifying injustice through an appeal to nature which began with Newton and would reach a culmination in Darwin in the not-too-distant future reached an all-time low in the editorials of English newspapers like *The Economist*, whose editor James Wilson opined to a presumably Christian nation that "it is no man's business to provide for another."⁶⁶ The greatest danger which the potato famine posed was not that the Irish peasantry might starve to death, but rather the possibility that the government might interfere into "the natural law of distribution," which decreed that "those who deserved more would obtain it."⁶⁷

The converse of that proposition was clear enough: those who had little (like the Irish) deserved even less. If it seemed cruel to allow children to starve to death lying in the same cold, louse-infested bed with their mothers and to have their corpses gnawed away by rats, that was only because the observer, lacking instruction in the finer points of laissez-faire, capitalist political economy, failed to see that often, as the *London Times* put it in an editorial in 1847, "something like harshness [was] the greatest humanity."⁶⁸ When Dennis McKennedy starved to death in October 1846, it was news. The deaths which followed so overwhelmed the already burdened English conscience that their existence was suppressed. Death by starvation was no longer news; in fact, it hardly deserved mention by the fall of 1847.

The silence in the press on those deaths coupled with editorials endorsing even colder neglect created a reaction against capitalism which is with us still. *The Communist Manifesto*, which appeared in November 1847 leveled a searing moral indictment against the religious-inspired looting and economic exploitation that the English ruling elites had defended for centuries. The Irish famine revealed capitalism in all of its naked brutality, and the vision the famine conjured was so disconcerting that the scribblers who wrote for the capitalist press had to transmute it into something more congenial to the collective conscience of the ruling class elites responsible for it.

And so the Irish got blamed for their own famine. The Irish were a bunch of whiners: "Why," the *Times* wondered, "is that so terrible in Ireland which in England does not create perplexity and hardly moves com-

passion?"⁶⁹ The only one who came close to the mark in evaluating the organs of public opinion at the time was the aged novelist Maria Edgeworth, who claimed that journalists like Wilson and economists like Nassau Senior and politicians like Trevelyan and Charles Wood had "heart[s] of iron," and "nature[s] from which the natural instinct of sympathy or pity have been destroyed."⁷⁰ The *Theory of Moral Sentiments*, it seems, eventuated in genocide or war crimes or something similar every time its economic lessons got applied to indigenous peoples:

Many people in high places in both London and Dublin in the 1840s believed that the famine was nature's response to Irish demographic irresponsibility, and that too much public kindness would obscure the message. There is some truth then in John Mitchel's contemporary claim that "Ireland died of political economy." . . . To relieve one famine would only "have postponed a calamitous reckoning when a swollen population multiplied beyond its subsistence."⁷¹

At some time during 1847, sympathy for the plight of the Irish famine victims dried up and was replaced by an anger which was at first generalized and free-floating but which later began to focus on the Irish landlord as the source of all evil. It was they, the public cried, who should shoulder the main financial burden which the famine created. The landlords resisted the suggestion that rate-payers (i.e., local taxpayers) should bear the brunt of responsibility for relief efforts. They claimed, with some justification, that the famine was "a national calamity and that therefore the burden should be shared throughout the United Kingdom."⁷² The sense that this was "an imperial calamity [to] be borne by imperial resources" was widespread.⁷³

There may have been collective finger-pointing in the press, but there was no collective response to the calamity at hand and the burden of dealing with the famine was placed on the shoulders of a group of landlords who were notoriously profligate and as a result deeply in debt. Most of the Irish landlords were already "hopelessly insolvent" because of "the extravagance of their predecessors, the building of over large mansions, reckless expenditure on horses, hounds, and conviviality, followed by equally reckless borrowing" which "had brought very many landlords to the point where, however desperate the needs of their tenantry, they were powerless to give any help."⁷⁴

Demonized by the press in England, the landlords decided to solve the problem by deporting their tenants to North America. Because of the English capitalist understanding of property rights, the Irish tenant was rack-rented by middlemen employed by the landowners who "often . . . visited property in Ireland only once or twice in a lifetime, sometimes not at all."⁷⁵ The "long lease" ensured that the landlord could "rid himself of responsibility and assured himself of a regular income, but the tenants were handed

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over to exploitation. Profit was the only motive.⁷⁶ That understanding of property rights also meant that the tenants received no compensation for any improvements they made on the landlord's property. The people who worked the land and improved it were considered tenants "at will," which meant the landlord could drive them off the land whenever he chose. This was not the case in Protestant Ulster, and the Devon Commission ascribed the "superior prosperity and tranquility" of that region to tenant right.⁷⁷ The Catholic Irish peasant lived, as a result, in a constant state of insecurity knowing that he could be expelled from land he tilled at the whim of a landlord imbued with the most ruthless capitalist principles.

On March 13, 1846, Mrs. Gerrard evicted 300 tenants from her estate in Ballinglass, County Galway. Even though the tenants were not in arrears in paying their rent and even though they had reclaimed 400 acres of bogland by their own labors, they were forced to leave their well-built houses, which were demolished by a group of constables and their agents. An observer described a "frightful" scene of:

women running wailing with pieces of their property, and clinging to door posts from which they had to be forcibly torn, men cursing, children screaming with fright. That night the people slept in the ruins; then next day they were driven out, the foundations of the houses were razed and no neighbor was allowed to take them in.⁷⁸

The English capitalists justified the Irish evictions, and the death by starvation that often followed therefrom, in the name of property rights. One of the most ardent defenders of those property rights was Lord Brougham, who rose before the House of Lords two weeks later to defend the behavior of Mrs. Gerrard and other landlords by claiming that

it was the landlord's right to do as he pleased and if he abstained he conferred a favor and was doing an act of kindness. If on the other hand he chose to stand on his right, the tenants must be taught by the strong arm of the law that they had no power to oppose or to resist. . . . property would be valueless and capital would no longer be invested in cultivation of the land if it were not acknowledged that it was the landlord's undoubted, indefeasible and most sacred right to deal with his property as he list. . . .⁷⁹

Faced with tenants who could not work or pay rent and the demand from England that the Irish solve their own problems, the landlords chose eviction as the solution to their dilemma: "Throughout these months . . . evictions were reported weekly. The potato failure endangered the payment of rents, a swarming population was likely to become unprofitable, and landlords were eager to clear their property of non-paying tenants."⁸⁰

Bereft of public sympathy, accused of being the source of their own misery, and triply burdened by disease and the elements in addition to famine, many Irish tacitly agreed with their evicting landlords and con-

cluded that their only hope of staying alive lay in emigration. By February of 1847, Ireland's roads were packed with emigrants. "All who are able," reported a Board of Works officer, "are leaving the country."⁸¹ In addition to the million Irishmen who died of hunger, another million crossed the Atlantic to North America during the famine years. The number of Irishmen who went as ballast to cities like Liverpool across the Irish Sea was even greater than the number that went to America.⁸² Because Canada was still an English colony at the time, the vast majority of emigrants chose it as their gateway to North America and landed at Grosse Isle, an island just below Quebec on the St. Lawrence River.

Emigration to Canada was only possible after the ice on the St. Lawrence River melted in the spring. Because of the severity of the winter of 1846-7, that didn't happen until May. Since the emigration started in earnest in February, the starving Irish were confined to the overcrowded holds of what came to be known as "coffin ships," for at least two months with no legally fixed provision of food and water before they could be processed at Grosse Isle and pass upstream to Montreal and points west. Because of the closeness of quarters in the coffin ships, diseases like typhus spread there even faster than in the remote cottages where people huddled together to ward off the cold.

The North Atlantic passage, taxing for the strong under the best of conditions, proved fatal for those weakened by famine and disease. When the ship *Syria* arrived at Grosse Isle on May 17, nine of the Irish passengers had already died, and 84 of the 214 passengers on board had succumbed to fever.⁸³ When the *Larch* arrived from Sligo, 150 of its 440 passengers arrived with fever after 108 had already died at sea. When the *Agnes* arrived, only 150 of its 427 passengers were alive after the Atlantic passage and the mandatory 15-day quarantine.⁸⁴

As more and more ships arrived, the number of fever cases began to spike, creating the steep curve that signaled an epidemic. Four days after the *Syria*, eight more ships arrived with a total of 431 fever cases on board.⁸⁵ Within three more days, 17 more ships arrived in which everyone had succumbed to fever. By this point, there were 695 fever cases in the hospital with 164 more on board various ships waiting to land. By May 263 ships carrying 10,000 immigrants had dropped anchor off Grosse Isle. Within the next three days, six more ships arrived carrying another 3,000 immigrants. By May 31, 40 ships were waiting to be unloaded and the 1,100 patients being treated for typhus on Grosse Isle overflowed the local hospital into the local church, tents, and sheds, and anything with a roof on it.

Given the overcrowding on Grosse Isle, customs officials had little choice but to send the emigrants, many of whom were already dying of fever, upstream to Montreal at the rate of over 2,000 a day.⁸⁶ The steamer

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ships which carried the immigrants to Montreal discharged them on the docks, where they were left by the thousands to fend for themselves, "sick, bewildered, and helpless."⁸⁷ Those who were unable to walk off the ship crawled down the gangplank and often died on the wharf. Then, with its health facilities totally overburdened, Canadian health officials received word that another 45,000 emigrants were en route. At this point, in spite of the heroic efforts of many Canadians, including eight Catholic priests and the bishops of Montreal and Toronto, who died after contracting fever while ministering to the Irish,⁸⁸ health care on the wharves and in the sheds along the St. Lawrence River collapsed completely and "the only persons who could be induced to take charge of the sick were abandoned and callous creatures, of both sexes, who robbed the dead."⁸⁹

During 1847 public opinion in England turned against Ireland's landlords. Lord John Russell led the change in public opinion by claiming that the Irish landlords had failed in their duty to support their own tenants.⁹⁰ Unlike the claims that Irish were responsible for their own misery, the claim that the landlords used emigration as the simplest way to get rid of starving tenants and thereby "decrease the surplus population" had an element of truth to it. But no matter how much the landlords earned the odium that was heaped upon them, the picture wasn't as simple as Russell and the press portrayed it.

To begin with, it was Russell's refusal to buy Indian maize, as his predecessor Peel had done, which put the landlords into a position in which they were being "squeezed by the pincer movement of lower rents and higher outlays both on relief and taxation."⁹¹ The proximate cause came in January 1847 when: "the Government announced that the whole destitute population was to be transferred to the Poor Law, to be maintained out of local rates at the expense of owners of property."⁹² Once the Russell government decided to stop importing Indian corn and the responsibility of feeding Ireland's starving multitudes was placed on the landlords' shoulders, their only hope for solvency lay in forcing the destitute off their lands. And the simplest way to remove them forever was to ship them to North America, because "Once the ship sailed the destitute were effectually gotten rid of."⁹³

In order to stem the orgy of speculation which accompanied the build-out of England's and America's rail networks, the Peel government passed the Bank Charter Act of 1844; it reduced the ratio of gold to paper currency which constituted the essence of the Gold Standard which England imposed on the world during the course of the 19th century. According to the principles of the Gold Standard, whenever the Bank of England's gold reserves dropped below a certain point, the Bank had to curtail the paper money supply.

The Gold Standard, as a result, contributed to the famine. Because of

the crash of 1847, no money was available for loans. Because of the failure of the potato harvest and the bad harvests of 1846-47, England was forced to buy food abroad, and to do that England had to dip into its gold reserves because only gold was accepted as international currency at the time. In order to insure the stability of a gold-backed currency, the Bank Charter Act of 1844 had lowered even further the ratio of gold to paper. The bank did this by raising the interest rate and calling in loans. This is what precipitated the Panic of 1847, which

started as a collapse of British financial markets associated with the end of the 1840s railway industry boom. As a means of stabilizing the British economy the ministry of Robert Peel passed the Bank Charter Act of 1844. This Act fixed a maximum quantity of bank notes that could be in circulation at any one time and guaranteed that definite reserve funds of gold and silver would be held in reserve to back up the money in circulation. Furthermore, the Act required that the supply of money in circulation could only be increased when gold or silver reserves were proportionately increased.⁹⁴

According to the Austrian School economist, Jesus Huerta de Soto, the Bank Charter Act of 1844:

represented the triumph of Ricardo's Currency School and prohibited the issuance of bills not backed 100 percent by gold. Nevertheless this provision was not established in relation to deposits and loans, the volume of which increased five-fold in only two years, which explains the spread of speculation and the severity of the crisis which erupted in 1846-5.⁹⁵

The Austrian School has always favored gold over paper, a policy which invariably leads to deflation and the contraction of the economy, which is precisely what happened in 1847. The Gold Standard ensures that paper money will be issued for speculation, but that it will disappear whenever the interests of those who hold the gold are threatened, i.e., when gold reserves shrink, as they did in England after the bad harvests of 1846-7.

The Bank Charter Act sought to regulate and strengthen the credit structure by tying any increase in the note issue to the gold held by the Bank of England in its Issue Department. In 1847 foreign speculation had increased the need to send gold abroad, and when grain prices and railway shares collapsed, a financial crisis occurred. To stem the panic, it was desirable for the Bank to lend freely, possible at a higher rate of interest, but this could not be done because the drain of gold was reducing the backing required for notes; moreover, loans from the Bank would inevitably mean that more notes would be required, and the Bank feared a shortage. Between August 28, and October 30, 1847, notes with the public went up by 2.5 million pounds. The Bank therefore refused to lend freely, the crisis was aggravated, and "a great panic in the money market" followed. Early in August failures began in the corn trade. They then spread to other

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branches of commerce, and by the end of September they involved, among first-class firms alone, losses of nine to ten million pounds. In October, 11 banks failed and the state of the City of London was described by Lord John Russell as "disastrous." In the House of Commons, it was stated that during the course of the panic 117 firms failed.⁹⁶

This is the most plausible explanation for the decision of the Rothschild family to enter the political lists in England. It was not the increasingly fractious Jewish question which convinced Lionel Rothschild to run for public office but rather the threat to capitalism which Ireland posed. Lionel Rothschild had made his decision to stand as a Whig for Parliament in June 1846 in the wake of Peel's defeat over the repeal of the Corn Laws. Although he opposed the Corn Laws on laissez-faire principles, Peel used free trade to overturn them in order to provide aid to Ireland, which set a dangerous precedent according to those who were committed to capitalist principles. If economic laws could be suspended for humanitarian—i.e., moral—reasons, there was no telling where a precedent like that might lead.

The Whigs adopted Lionel as their candidate on June 29, 1847,⁹⁷ but he had decided to run months before. Lionel made "no secret of his determination to carry his election by money"⁹⁸ or of his determination to use bribery to get political office. On December 23, 1846, Lionel's brother Nat expressed some qualms about the means which Lionel thought necessary to achieve his desired end:

I regret much to observe that you think it necessary to use certain means to secure some votes in the House of Lords which are not peculiarly commendable. I must say I should have preferred to have seen it otherwise, after the late process of corruption which we witnessed where one might rather shy of being party to anything of the sort. To come however to the point, on this occasion our worthy uncle and your humble servant are of the opinion that we must not be too scrupulous and if it be necessary to ensure the success of the measure we must not mind a sacrifice—We can not fix the amount; you must know better how much is required than we do . . . of course you will not cash up until the bill passes the Lords, and you must not make any bargain or care about who gets it.⁹⁹

Peel's altruism, in other words, forced Lionel Rothschild into the political arena to defend the hegemony of money over moral concerns. Lionel's campaign, which included "buy[ing] votes in the Upper House,"¹⁰⁰ as well as bribing Prince Albert with a 50,000 pound contribution to his "pet but chronically underfunded project for a Great Exhibition of the 'Industry of all Nations,'"¹⁰¹ reached its culmination when he was sworn into office on a Bible from which the New Testament had been excised. It was a gesture full of symbolism, which most Englishmen were loathe to admit much less explicate. Lionel's wife Charlotte called his political victory "the beginning of a new era for the Jewish nation," and in a sense it was. The excision of the New Testament from the Bible Lionel swore his oath on was sym-

bolic of an excision of the Christian moral order from a country which had been founded upon it. The repudiation of that order which began with the Reformation and which continued after the Glorious Revolution, would find its culmination in an anti-Christian Jewish hegemony, which many of Lionel's contemporaries found ignominious. Thomas Carlyle, who was infuriated by Lionel's candidacy, wrote to the MP Monckton Milnes, wondering, "how can a real Jew, by possibility, try to be a Senator, or even a Citizen of any country except his own wretched Palestine, whither all his thoughts and steps and efforts tend?"¹⁰² and wanted the state to repossess the wealth that the Jews had accumulated through usury. "I do not mean that I want King John back again," Carlyle told the historian J. A. Froude, "but if you ask me which mode of treating these people to have been nearest the will of the Almighty about them—to build them palaces like that, or to take the pincers for them, I declare for the pincers. . . . 'Now, Sir, the State requires some of these millions you have heaped together with your financing work.'"¹⁰³ Oblivious to the anti-Semitism that their behavior was causing among local patriots on both sides of the channel, Lionel's brother James wrote from Paris to tell him that his admission to Parliament was "a real triumph for the family."¹⁰⁴

If so, it was an even greater triumph for the gold standard and the notion that there was no greater tragedy in life than a decline in the amount of gold in English vaults. The Rothschilds were firm supporters of the gold standard because "the gold standard was, in effect, the global monetary system."¹⁰⁵ The Rothschilds' great achievement was the creation of a truly international bond market, but this depended on the gold standard, which "ensured that foreign bonds denominated in gold-based currencies were proof against exchange rate fluctuation and therefore marketable to more cautious investors"¹⁰⁶ as well as the British Navy's willingness to enforce contracts and collect debts:

The enormous levels of capital export from Britain which characterized the late 19th and early 20th centuries were to some extent facilitated by the development of a global monetary system, first the bimetallic (silver and gold) system and then, from the mid-1870s, the gold standard, which fixed the exchange rates of most major currencies in terms of gold and then tied them to sterling the world's major reserve currency.¹⁰⁷

The Rothschilds were "strenuously devoted towards maintaining our financial supremacy to which England owed her overwhelming mercantile supremacy."¹⁰⁸ But it was precisely the "financial supremacy" embodied in the gold standard which spelled doom for Ireland.

The ultimate cause of Russell's refusal to buy maize was economic. In general, the decision was based on the principles which he and his class had imbibed from Smith and Smith's Manchester School epigoni, but in partic-

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ular, Russel's decision stemmed from a more immediate crisis, namely, the financial panic of 1847: "Trevelyan ended poor relief during the summer of 1847 because of the Financial crisis of 1847: the food shortage led to trade deficits which brought about drain of bullion from the Bank of England."¹⁰⁹ The total amount of money (10 million pounds) which England spent on famine relief between 1846 and 1852 was trifling compared to the money they spent on emancipating black slaves in the West Indies and even more trifling compared to the 1 percent of GDP which the Czar spent to relieve "the much less threatening Russian famine of 1891-2."¹¹⁰ When it came to real priorities feeding the poor finished a distant second to maintaining the Gold Standard, by which England dominated the world's system of financial exchange. The measures which the Old Lady of Threadneedle street took to stop the external drain of bullion from the Bank of England spelled doom for the Irish poor and prompted Charles Wood to tell Clarendon, "I have no money," and plead that he was unable to provide financial help for Ireland.¹¹¹

At this Clarendon became angry, citing Trevelyan, who in accordance with the principle of *laissez-faire* had produced a phrase, "the operation of natural causes," to which he considered Ireland should be left. As for "the operation of natural causes," Clarendon told Grey, it meant "wholesale deaths from starvation and disease, and John Bull won't like that, however cross he may be at paying."¹¹²

On September 30, Trevelyan informed his agent Twisleton that treasury grants to distressed Irish unions were to cease:

There would be no issue of condemned and unwanted Ordnance clothing to Irish workhouses, as there had been last winter . . . "it is a great object not to revive the habit of dependence on government aide," wrote Trevelyan, and to encourage independence he further stopped feeding destitute children, in spite of Lord John Russell's pledge . . . funds were now exhausted and the Government could do nothing.¹¹³

Twisleton responded by telling Trevelyan:

that he had thought it better to omit from the annual report of the Poor Law Commission (Ireland) and statement as to how much each pauper cost, in case people should say "we were slowly murdering the peasantry by the scantiness of our relief."¹¹⁴

The answer was that Ireland was to be abandoned to Trevelyan's operation-of-natural-causes system. That meant in Greville's words that:

Charles Wood has along set his face against giving or lending money . . . and he contemplates (with what seems very like cruelty, though he is not really cruel) that misery and distress should run their course; and that such havoc should be made among the landed proprietors, that the price of land will at last fall so low as to tempt capitalists to invest their funds therein. . . .¹¹⁵

The landlords weren't responsible for the government's decision to dis-

continue the importation of corn, nor were they responsible for the panic of 1847 or the gold standard which created the panic, but they were certainly responsible for the appalling conditions in the ships that brought their former tenants to the New World. Of all of the suffering that took place between 1845 and 1849, nothing "aroused such savage resentment, or left behind such hatred, as the landlord emigrations."¹¹⁶ Once the government refused to take responsibility for even the minimal famine relief which Peel had authorized, the temptation to ship off those "who, through age, infirmity or the potato failure, had become useless and an apparently endless source of expense,"¹¹⁷ became irresistible.

But why did the landlords find it impossible to feed the people who raised their crops? The answer is debt: by the time that the potato blight destroyed the crop of 1846, "The majority of Irish landlords were . . . bankrupt"¹¹⁸ from previous extravagance paid for by borrowed money. The Irish landlords couldn't provide aid to their tenants because they were all in debt. Irish landlords, most of whom were absentees living in London, were notorious for not improving their property. The famine was simply the straw that broke the back of a camel already overburdened by debt that had accumulated for generations:

The verdict of the specialist literature is that conspicuous consumption and poor estate management rather than bad luck or investment plans thwarted by famine were responsible for the lion's share of estate indebtedness. When the famine was over, the pro-landlord Mayo Constitution conceded that the demise of ancient landed families was due to debts of many past generations. The record is full of examples of landlord extravagance in quest of a quality of life set by their peers across the Irish Sea. The behavior of Cork landlords prompted the historian who knows them best to surmise that "although the fateful events of 1845-49 pushed the encumbered landlords of Cork over the brink of disaster, it was clear . . . that the long awaited day of reckoning with their creditors was close at hand."¹¹⁹

By the time the Russell government made the landlords responsible for poor relief, their estates were so overburdened with debt that they could hardly keep up with the interest payments on their loans, much less pay off their debts. The usury burden on encumbered Irish estates had become so onerous that there was no money left over to pay for the upkeep of the workers who planted and harvested the crops, much less for their dependents. O'Grada claims that:

there can be little doubt but that "the cumulative cost of an aristocratic life-style drove many owners of estates to the moneylender." Landlord indebtedness was by no means a uniquely Irish feature, however. In England around this time, it was commonly held that land was mortgaged to about one-half its value, or that servicing debt absorbed about half the gross rental income.¹²⁰

Woodham-Smith sets the figure for Ireland even higher. Lord Mount-

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cashel told the House of Lords that "out of an annual rental of 13 million pounds it was estimated that Irish landlords paid away nearly ten and a half million pounds in mortgages and 'borrowed money,' so that the sum actually at their disposal was something less than three million pounds."¹²¹ The landlords, in other words, were assessed as having a taxable annual rental income of close to 14 million pounds when, in fact, the entire island had less than 3 million pounds at its disposal once debt service got subtracted from gross income.

Once property law got reformed and Irish estates started landing in bankruptcy court around the middle of the century, the true magnitude of landlord indebtedness became painfully apparent. In November of 1849, in one of the first cases heard by the reformed encumbered estates court, the Earl of Portarlington declared debts of 700,000 pounds against an annual rental income of 33,000 pounds, a situation in which income from rent hardly covered the interest payments on his loans.¹²² His situation was, however, mild by comparison to that of his peers. Lord Oranmore and Browne owed over 200,000 pounds on an estate which earned less than 5,000 pounds in annual pre-famine rent, which is to say less than half of the interest payment due if he were paying simple interest, which he most certainly was not. The Earl of Aldborough owed 151,478 on an estate which earned him 2,229 pounds in rent annually.¹²³ During the first three years of the reformed bankruptcy court, three-quarters of all the cases heard involved estates which had debts exceeding ten times the amount of annual rent collected on them.¹²⁴

Even in the poorest areas of Ireland during the famine, poor relief accounted for only a small percentage of the rents due. Once these figures became commonly known they turned British public opinion against the Irish landlords. Missing from that calculation, however, was the debt service which gobbled up virtually all of the rental income on virtually all of the Irish estates. This didn't exculpate the landlords from their responsibility for past extravagance, but it didn't help their starving tenants either. Because of the usury burden, there was no money to spare for poor relief, even if it only accounted for a "small fraction" of gross rental income. "Debts accumulated in the years before the famine" was the main factor which "prevented many landlords from playing a more active part in limiting mass mortality during the famine."¹²⁵

Debt may have been the main factor in determining the administration (or lack thereof) of poor relief, but the famine was irrelevant when it came to bankruptcy. O'Grada claims that "it was doubtful that any landlord who was free of debt and owed no rent in 1845 succumbed during the famine."¹²⁶ Given a situation like this, it seems clear that most Irish landlords would not have escaped bankruptcy court in the 1850s even if there had been no

famine. Conversely, most landlords were so encumbered with debt that any poor relief would have been beyond their economic means.

Endnotes

- 1 Cecil Woodham-Smith, *The Great Hunger: Ireland 1845-1849*, (London: Penguin, 1962), p. 103.
- 2 Ibid.
- 3 Woodham-Smith, p. 141.
- 4 Cormac O'Grada, *Black '47 and Beyond: the Great Irish Famine in History, Economy and Memory*, (Princeton, NJ: Princeton University Press, 1999), p. 39.
- 5 O'Grada, p. 68.
- 6 Ibid.
- 7 Ibid.
- 8 Ibid.
- 9 Woodham-Smith, p. 107.
- 10 Woodham-Smith, p. 100.
- 11 Woodham-Smith, p. 106.
- 12 O'Grada, pp. 68-9.
- 13 Woodham-Smith, p. 143.
- 14 Woodham-Smith, p. 144.
- 15 O'Grada, p. 38.
- 16 Woodham-Smith, p. 67.
- 17 "Sir Charles Trevelyan 1st Baronet," *Wikipedia*, http://en.wikipedia.org/wiki/Sir_Charles_Trevelyan,_1st_Baronet
- 18 Ibid.
- 19 Woodham-Smith, p. 155.
- 20 "Sir Charles," op. cit.
- 21 Woodham-Smith, p. 148.
- 22 Woodham-Smith, p. 61.
- 23 Woodham-Smith, p. 84.
- 24 Woodham-Smith, p. 91.
- 25 Woodham-Smith, p. 89.
- 26 Woodham-Smith, p. 100.
- 27 Woodham-Smith, p. 89.
- 28 Woodham-Smith, p. 123. This thinking was also rife in India in the 20th century. In *Poverty and Famines*, Sen goes into details of the Indians famines including one where a British administrator had a train loaded with emergency food supplies for a famine stricken area but was stopped by his superiors who upbraided him for not applying Adam Smith and ordered the relief train not sent since the market would take care of the food shortage. The peasants who had spent all their resources on planting failed crops had no money to spend, so the private sector did not appear, and the people died. During this time, the area was

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exporting food.

29 Woodham-Smith, p. 116.

30 O'Grada, p. 122.

31 Woodham-Smith, p. 137.

32 Ibid.

33 Woodham-Smith, p. 137.

34 Woodham-Smith, p. 167.

35 Woodham-Smith, p. 185.

36 Woodham-Smith, p. 148.

37 Woodham-Smith, p. 133.

38 Ibid.

39 Woodham-Smith, p. 119.

40 Woodham-Smith, p. 115.

41 Woodham-Smith, p. 116.

42 Woodham-Smith, p. 157.

43 Woodham-Smith, p. 168.

44 Woodham-Smith, p. 113.

45 Woodham-Smith, p. 162.

46 Woodham-Smith, p. 163.

47 Woodham-Smith, p. 180.

48 Ibid.

49 Woodham-Smith, p. 181.

50 Woodham-Smith, p. 182.

51 Ibid.

52 O'Grada, p. 72.

53 Ibid.

54 Woodham-Smith, p. 89.

55 Woodham-Smith, p. 189.

56 Woodham-Smith, p. 191.

57 Woodham-Smith, p. 192.

58 Woodham-Smith, p. 200.

59 Woodham-Smith, p. 204.

60 Woodham-Smith, p. 171.

61 Woodham-Smith, p. 168.

62 Woodham-Smith, p. 178.

63 Woodham-Smith, p. 179.

64 O'Grada, p. 77.

65 Woodham-Smith, p. 105.

66 O'Grada, p. 6.

67 Ibid.

68 Ibid.

69 Woodham-Smith, p. 122.

Barren Metal

- 70 O'Grada, p. 6.
- 71 Ibid.
- 72 O'Grada, p. 43.
- 73 O'Grada, p. 78.
- 74 Woodham-Smith, p. 63.
- 75 Woodham-Smith, p. 21.
- 76 Woodham-Smith, p. 22.
- 77 Woodham-Smith, p. 23.
- 78 Woodham-Smith, pp. 71-2.
- 79 Woodham-Smith, p. 72.
- 80 Woodham-Smith, p. 71.
- 81 Woodham-Smith, p. 215.
- 82 Woodham-Smith, p. 206.
- 83 Woodham-Smith, p. 219.
- 84 Woodham-Smith, p. 231.
- 85 Woodham-Smith, p. 220.
- 86 Woodham-Smith, p. 232.
- 87 Woodham-Smith, p. 233.
- 88 Woodham-Smith, p. 235.
- 89 Woodham-Smith, p. 221.
- 90 Woodham-Smith, p. 297.
- 91 O'Grada, p. 133.
- 92 Woodham-Smith, p. 227.
- 93 Ibid.
- 94 "Panic of 1847," *Wikipedia*, http://en.wikipedia.org/wiki/Panic_of_1847.
- 95 Ibid.
- 96 Woodham-Smith, p. 305.
- 97 Niall Ferguson, *The House of Rothschild: the World's Banker 1849-1999* (New York: Viking, 1999), p. 26.
- 98 Ferguson, p. 27.
- 99 Ferguson, pp. 36-7.
- 100 Ferguson, p. 37.
- 101 Ferguson, p. 38.
- 102 Ferguson, p. 27.
- 103 Ibid.
- 104 Ibid.
- 105 Ferguson, p. 349.
- 106 Ferguson, p. 348.
- 107 Ferguson, p. 347.
- 108 Ferguson, p. 348.
- 109 Woodham-Smith, p. 78.
- 110 O'Grada, p. 83.

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- 111 Woodham-Smith, p. 206.
- 112 Woodham-Smith, p. 374.
- 113 Woodham-Smith, p. 370.
- 114 Woodham-Smith, p. 368.
- 115 Woodham-Smith, p. 379.
- 116 Woodham-Smith, p. 227.
- 117 Ibid.
- 118 Woodham-Smith, p. 284.
- 119 O'Grada, p. 130.
- 120 O'Grada, p. 129.
- 121 Woodham-Smith, p. 297.
- 122 O'Grada, p. 131.
- 123 Ibid.
- 124 O'Grada, p. 132.
- 125 O'Grada, p. 134.
- 126 Ibid.

Chapter Seventy-Six

Palmerston and the Don Pacifico Affair

Once Russell imposed the burden of poor relief on landlords, their first inclination was to get rid of the poor by shipping them off to North America. Lord Palmerston, who was Foreign Secretary during the latter part of the famine years, was one of the worst offenders. His defense of free trade involved him in arguments with foreign governments which, according to the economic principles which Palmerston learned during his years at the University of Edinburgh, should have followed Ireland's example and exported food as their people starved. Any country which "prohibited the export of corn during the period of food shortage in 1847, thus preventing British merchants from carrying out their contracts," earned Palmerston's ire and "a lecture on the merits of free trade."¹ Palmerston informed the Turks that the British were so committed to free trade that they had always refused, even at the height of the potato famine, to ban the export of corn and urged them to follow England's example. The Turks, however, "were not converted to a belief in laissez-faire economics by Palmerston's exposition of the infallible operation of the law of supply and demand."²

Given his attitude, Palmerston felt that the simplest solution to the problem of his starving tenants was to send the "surplus Irish" to America "where they could find work and food, where the enterprising could make their fortunes, and where the malcontent could attain their hearts' desire of living in a democracy."³ Palmerston offered to pay the fare of any tenant who was willing to emigrate. In order to ensure that the "surplus Irish" had a pleasant voyage, Palmerston also arranged to have them served hot rum punch on the ship, until the priests and temperance societies objected. Ever amenable, Palmerston "therefore stopped the alcohol ration and arranged for them to be given coffee and a biscuit instead."⁴ Palmerston also promised that every emigrant family would be paid between two and five pounds upon arrival in Canada, but as in virtually every detail of his emigration plans, what Palmerston promised and what his agents delivered, diverged significantly. No one met the "surplus Irish" at the docks of Grosse Isle; no one was there to provide the assistance which Palmerston had promised to get them to leave, "and they were left to beg in the snow, barefoot and in rags, during their first Canadian winter."⁵ In spite of the conditions which awaited them in Canada, "emigration to America. . . reduced the population of Ireland by 20 percent in five years."⁶

After less than a year of this callous behavior, the Canadians had had enough. On December 11, 1847, Adam Ferrie, a member of the Legislative Council of Canada, denounced Lord Palmerston for placing 2,000 tenants from his estates in Sligo on Canada-bound "coffin ships." Some of Lord Palmerston's tenants got shipped off to Liverpool, but in either case the ships held twice as many passengers as they should have, forcing the Canada-bound Irish to huddle together between the decks for the entire Atlantic passage, during which the starvation which had driven them to emigrate in the first place continued because of a lack of food and water and filthy conditions which were "as bad as in the slave trade."⁷

Henry John Temple, the third Viscount Palmerston, born on October 20, 1784, was a typical example of toxic combination of profligacy, arrogance, and moral degeneracy which characterized the Irish landlord class and would lead to the deaths of thousands of landless agrarian laborers through starvation, disease, or emigration. Palmerston had inherited his huge Sligo estates from his Protestant forebears who had stolen the land from the Irish. Sir John Temple:

had been an ardent Parliamentary and an outspoken supporter of Cromwell's bloody Irish campaign in the 1640s; as a result of these loyalties he was awarded lands confiscated from dispossessed Irish Catholic landowners. Sir John had successfully trimmed his convictions under Charles II, and his son in turn emerged from the 1688 Glorious Revolution and its aftermath with his Irish Estates much enlarged. In 1723 Henry Temple, Sir John's grandson was given an Irish peerage and became the first Viscount Palmerston.⁸

The theft of Irish land "now guaranteed" the Temple family "a secure position in the aristocratic firmament of 18th century England," largely because of the "comfortable income" it derived from "rents of land in Ireland and England [as well as] from a sinecure clerkship in the court of the Exchequer worth 2,000 pounds a year."⁹ It also allowed the first Viscount to purchase Broadlands in Hampshire as a second country seat. Palmerston's father, the second Viscount, spent 23,000 pounds on its improvement and employed Capability Brown to landscape the grounds,¹⁰ but he

had no feelings of obligation towards his Irish tenants, and never invested any money in his lands in Sligo. These tenants had neither the knowledge, the energy, nor the incentive to improve the land, and, like all the Irish peasantry, lived in a great poverty, and came to depend entirely on the potato for their diet. They went short of food every year during the "meal months" of June, July and August, before the next potato crop was ready, and when the crop failed they died of starvation. In 1739, one fifth of the population died of hunger. The death of three and a half percent of the population during the great famine of 1847 shocked Britain, Europe and America, but hardly anyone in England cared in 1739, and historians have hardly troubled to refer to the incident.¹¹

The purchase of Broadlands was significant because it initiated a finan-

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cial trajectory which would find its culmination in the mid-19th century, when unrepayable debt among the absentee landlord aristocracy in England led not only to default but to the death of the Irish tenants who lived off the land of the encumbered estates.

Henry Temple was sent to Harrow as a ten year old in May of 1794.¹² Six years later his father broke with aristocratic tradition by sending Harry not to Cambridge or Oxford but to Edinburgh University "to study . . . Political Economy under . . . Professor Dugald Stewart, a Radical and a friend of Adam Smith."¹³ In terms of his moral behavior and economic views, Palmerston was a typical product of the Scottish Enlightenment and the science of political economy. In his three years at the University of Edinburgh from 1800 to 1803, Palmerston:

was taught that each individual was the best judge of his own interests and thus the government should interfere as little as possible in the lives of its subjects. It followed that anything which hampered the freedom of the individual, particularly in the economic sphere was reprehensible. Tariff walls and monopoly trading companies, which favored a small group of producers at the expense of a much larger number of consumers must be swept away at the earliest possible opportunity.¹⁴

Palmerston later described his education at Edinburgh as responsible for "whatever useful knowledge and habits of mind I possess."¹⁵ At some point during his formative years, Palmerston also picked up a number of bad habits, which Smith's *Theory of Moral Sentiments* did nothing to correct. That these habits came from nurture rather than nature is deducible from his grandparents' assessment of his character as an 11-year-old child. Lord and Lady Minto's praise of young Harry's "diligence, capacity, total freedom from vice of every sort, quiet and kind disposition, cheerfulness, pleasantness and perfect sweetness"¹⁶ stands in marked contrast to his later reputation as a "rip-roaring ladies' man"¹⁷ and a dead-beat who never paid his bills. The difference is attributable to the *Zeitgeist* of the Regency period, which rested upon the rotten and morally corrupting foundation of Scottish moral theory and political economy.

Like most of his class, Palmerston inherited heavily encumbered estates when his father died of throat cancer in April 1802. Largely because of the expenses involved in the extravagant renovation of Broadlands, Harry's father, the second Viscount Palmerston "had died heavily in debt, and when Palmerston inherited Broadlands it was encumbered with a mortgage for 10,000 pounds."¹⁸ Palmerston paid off part of the Broadlands mortgage in 1811, but six years later, the total encumbrance of his English estate had grown to 14,000 pounds. In order to keep up with the debt burden on Broadlands, Palmerston was forced to increase his mortgage on his Irish estates, where his chief liabilities lay,¹⁹ and let out his London house

in Hanover Square to a series of (albeit, distinguished) tenants, which included Sir Robert Peel, the Duchess of Brunswick and the Bishop of Durham. In 1839 Pamerston was sold the house in Hanover Square in one more futile effort to eliminate the mortgage on Broadlands. (He only succeeded in reducing it by half.)²⁰

In 1808 Palmerston visited his family estates in Sligo. When he saw how "desperately the boggy, overpopulated land needed reform," he introduced agricultural improvements which involved building roads, as well as a small manufacturing village, a harbor on Donegal Bay and a Catholic school for the children of his tenants.²¹ Palmerston "invested money in developing them a good deal further than in the days of the second Viscount,"²² but debt insured that the native hue of resolution was sicklied o'er by the pale cast of compound interest.

In order to stay ahead of his creditors, Palmerston began speculating on the stock market during the 1820s, which more often than not increased his debts rather than diminishing them. During the 1820s, Palmerston "became a director in two companies, both of which involved him in some difficulties"²³ and eventually lost a great deal of money in his efforts to get out of debt.

In 1809, when he accepted the position of secretary of war at the age of 25, Palmerston had already acquired the reputation of being a sexual reprobate. On hearing the news of Palmerston's appointment, Lady Lyttleton remarked that "I suppose we must be glad of it as it may divert his Lordship from flirting, in the same way as people rejoiced at his predecessor's appointment because it was to cure him of gambling."²⁴ In order to get into Almack's, the exclusive London club that insured career advancement during the Regency period, Palmerston agreed to sleep with his three lady patrons on the board, and fathered a number of illegitimate children by one of them, Lady Cowper, who became his wife.²⁵

Palmerston's amorous intrigues, combined with the extravagant lifestyle he needed to maintain to ensure success in love and climbing the greasy pole of ambition, gradually hardened him, and the man who was "Lord Cupid when he was young" became "Lord Pumicestone when he was old."²⁶ Being a gentleman meant not only sleeping with other men's wives, it also involved going into debt and refusing to pay bills, or as Judd puts it:

Palmerston's rakish deportment was nicely reflected in his dealings with tradesmen. He regularly refused to pay bills, even after repeated, and presumably polite applications. Between 1811 and 1841 he was sued by his creditors on 20 occasions; in 18 of these instances judgment with costs was awarded against him, and on one occasion he settled out of court. The sums involved were mostly rather modest, and one creditor was obliged to invoke the majesty of the law to recover a mere [2 pounds] from this obstinate, salaried aristocrat with extensive estates in England and Ireland.²⁷

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Palmerston's support of laissez-faire capitalism and the military might which was needed to enforce the payment of its usurious debts found expression in Parliament, where he defended, "flogging as a means of maintaining discipline in the army."²⁸ The life Palmerston led as a Regency rake rendered him, unsurprisingly, "notably unsympathetic to individual cases of hardship,"²⁹ a character trait his contemporary William Cobbett noticed. Riding past Broadlands on his horse on October 16, 1826, Cobbett noted in his diary that one of Broadland's tenants, "poor Charles Smith . . . was hanged for shooting at (not killing) one Snelgrove, an assistant gamekeeper of Lord Palmerston."³⁰ Palmerston's cruelty combined with his speculation on the stock exchange caused Cobbett to wonder:

What would our old fathers of the "dark ages" have said if they had been told that their descendants would at last become so enlightened as to enable Jews and loan-jobbers to take away noblemen's estates by mere "watching the turn of the market," and to cause members, or at least one member of that "most honorable, noble and reverend body" to become a director in a mining speculation! How one pities our poor, "dark age, bigoted" ancestors, who would, I dare say, have been as ready hang a man for proposing such a "liberal" system as this, as they would have been to hang him for shooting at (not killing) and assistant gamekeeper! Poor old fellows! How much they lost by not living in our "enlightened times!"³¹

When the ship *Lord Ashburton*, which was carrying 174 of Lord Palmerston's tenants, arrived in Quebec on October 30, 1847, 107 of the 477 passengers had died of fever and dysentery.³² Of the 174 tenants which Lord Palmerston had shipped off, 87 "had to be clothed by charity before they could, with decency, leave the ship."³³ Two weeks later, in even colder weather, the brig *Richard Watson* landed at Grosse Isle with another shipment of Palmerston's unfortunate tenants, which included, in addition to the poorly clothed, a woman who "was completely naked, and had to have a sheet wrapped around her before she could go ashore."³⁴

England was the world's greatest manufacturer of clothing at this time. The United States and Germany had to erect tariffs to keep from being inundated by the cheap cloth which the mills of Manchester and Birmingham were churning out. Palmerston, like all progressive thinking men of his age, opposed slavery and was "a discreet, behind-the-scenes supporter of Wilberforce's Anti-Slavery society."³⁵ Part of the 20 million pounds which the English abolitionists had collected to emancipate the slaves in the West Indies was spent on buying them clothing, but when there was talk of clothing the Irish in uniforms rejected by the Admiralty as unsuitable for her majesty's sailors, the government rejected that idea. Routh felt that surplus navy uniforms were "much too good for the Irish poor."³⁶ As a result, Palmerston's tenants arrived in Canada naked or half-naked at the beginning of the Canadian winter.

When the ship *Aeolus*, carrying tenants from Lord Palmerston's Sligo estates, completed the Atlantic crossing on November 2, the St. Lawrence River was already closed by ice, forcing it to land in St. John, New Brunswick instead of Grosse Isle. The captain quickly rid himself of his diseased and starving cargo of 240 emigrants by paying 250 pounds in bonds and sailing off, leaving the Canadians to deal with the situation as best they could.

As at Grosse Isle in weeks previous, Lord Palmerston's tenants emerged from steerage into the snow-covered streets of St. John and the full fury of the Canadian winter "almost in a state of nudity."³⁷ There were "widows with helpless young families, decrepit old women" and men "riddled with disease," 99 percent of whom had to be taken care of by public welfare immediately. The residents of St. John claimed that this was impossible and offered "all who would go back to Ireland a free passage and food," but there were no takers. Freezing to death in Canada was evidently better than starving to death in Ireland. This state of affairs so enraged the city fathers of St. John that they wrote a letter to Lord Elgin, the Governor-General of Canada, deploring the fact that:

one of Her Majesty's ministers, the Rt. Hon. Lord Palmerston, either by himself or his authorised agent should have exposed such a numerous and distressed portion of the tenantry to the severity and privations of a New Brunswick winter . . . unprovided with the common means of support, with broken-down constitutions and almost in a state of nudity.³⁸

Palmerston passed the complaint on to the firm of Kincaid and Stewart, which had arranged the details of the ethnic cleansing of the Irish from Palmerston's Sligo estates, and they responded that "over 2,000 person had been sent out from Lord Palmerston's estates during the past season." In response to the claim that the emigrants arrived in Canada naked, Kincaid and Stewart wrote, "large sums were expended in providing clothing . . . but we suppose the hardships of a rough sea voyage were too much for the inferior kind of clothing to which the inhabitants of the west of Ireland are accustomed."³⁹ Messrs Kincaid and Stewart dealt with the charges of callous neglect by explaining to Palmerston that "all the persons" he had shipped off to Canada:

were the poorest class of farmer, very little better than paupers. If they had been able to retain their small farms and maintain themselves and their families at home they would not have entreated your lordship to send them to a strange country, nor is it probable that your Lordship would have incurred so great an expense for the purpose of removing from your estate a large body of the tenantry solvent in their circumstances and able to pay their rent.⁴⁰

In other words, Palmerston was justified in sending 2,000 of this tenants off to their deaths or to arrive half-naked to survive the Canadian

winter because they had failed to pay their rent. Kincaid and Stewart could write a letter justifying the deaths of the Irish emigrants by neglect knowing that Palmerston would endorse these views because of his training in political economy at the University of Edinburgh. No matter how morally repugnant his actions were, Palmerston's removal of his tenants could be justified on economic grounds. The benefits were palpable. By 1849 "the number of persons receiving relief had dropped to two percent of the 1847 figure."⁴¹

Trevelyan eventually wrote a book about the famine entitled *The Irish Crisis*. His account ends in August 1847, but this bespeaks more his desire as an administrator to be done with an unpleasant assignment, rather than any real end to the suffering. The potato crop failed again in 1848, and "in the opinion of experienced relief officials,"⁴² this failure caused more suffering than that of 1846. The famine was never "over" in the sense that a play, which has a beginning, middle, and end, is over when the final curtain falls. It wasn't "over" in the way an epidemic occurs, peaks, and is over: "The poverty of the Irish people continued, dependence on the potato continued, failures of the potato, to a greater or lesser extent, continued, and hunger continued."⁴³ Woodham-Smith claims that "In 1849 . . . the philanthropist Sidney Godolphin Osborne, traveling in the west 'frequently' saw dead bodies lying by the side of the road."⁴⁴

Throughout her account of the famine, Woodham-Smith maintains that Capitalism, not *phytophthora infestans*, was the main cause of suffering and death in Ireland from 1845 to 1849. By the time the English administrators of famine relief had moved on to other assignments, 2.5 million people had been lost.⁴⁵ Woodham-Smith attributes this not so much to malice, as to an "obtuseness" which:

sprang from the fanatical faith of mid-19th century British politicians in the economic doctrine of laissez-faire, no interference by government, no meddling with the operation of natural causes. Adherence to laissez-faire was carried to such a length that in the midst of one of the major famines of history, the government was perpetually nervous of being too good to Ireland and of corrupting the Irish people by kindness, and so stifling the virtues of self-reliance and industry.⁴⁶

During Easter week of 1847, shortly before the Irish began dying by the thousands on the wharves of Grosse Isle, one of the many scions of the Rothschild family, arrived in Athens to discuss repayment of a loan which they had extended to the Greek government. Sensitive to the psychic needs of their Jewish creditors, Greek government officials decided to ban the burning of an effigy of Judas which was part of the customary celebration of Easter in Greece. Enraged by what they saw as Jewish meddling in their religion, the citizens of Athens took to the streets and ended up toward

evening in front of the house of a Jewish merchant by the name of David (or Chevalier or Don, as he liked to call himself) Pacifico, the man they held responsible for the ban.⁴⁷

Pacifico was a Spanish Jew who had been born in Gibraltar and a British citizen by birth. This distinction presumably meant little to him because when he moved to Portugal and began to engage in commerce there, he renounced his British citizenship and became a naturalized Portuguese subject. So complete was Don Pacifico's identification with his adopted country that he was appointed Portuguese consul in Athens in 1839.⁴⁸ Apparently Pacifico's Portuguese citizenship meant less to him than to the Portuguese officials who appointed him consul, because upon his arrival in Athens, he applied to the British embassy for a British passport, "apparently without mentioning the fact that he had been naturalized Portuguese."⁴⁹ British passports were notoriously fraudulent during this period largely because of the national pride and intransigence of Lord Palmerston. As Foreign Secretary in 1835, he informed the Belgian government that "no Englishman should be subjected to the humiliation of having to give such personal details to government officials," even if the passports were being used by non-British foreign revolutionaries seeking asylum in Belgium.⁵⁰

The Greek mob which had its heart set on burning an effigy of Judas eventually broke down the door to Pacifico's house, harassed his wife and children, stole some jewelry, and set the place on fire. Pacifico had, of course, called the police, but they sympathized more with the mob, which included the son of Greece's minister of war, and stood idly by for three hours as the mob raged.

After it was all over, Pacifico claimed that the Greek government owed him 5,000 pounds in damages to his house plus another 27,000 pounds because evidence for a lawsuit he was pursuing had, unfortunately, perished in the fire. Unable to get satisfaction from the Greek government, Don Pacifico, in his hour of need, showed up at the British consulate with his fraudulent British passport and asked the resident consul, a man by the name of Lyons, to take up his case. Astoundingly, Lyons agreed. Even more astoundingly, on May 11, 1847, when the tenants from his Sligo estates—who, unlike Pacifico, actually were British subjects—were dying of typhus on the docks of Grosse Isle, Palmerston sent a note of protest to the Greek and Bavarian governments (the king of Greece was a Bavarian) warning them that he intended to send in the British navy to blockade the Greek port of Piraeus and seize Greek ships if the Jew's claim were not paid in full. The Greek government responded to Palmerston's note by telling him that Pacifico could prosecute his claim in the Greek courts, but this wasn't good enough for Palmerston, who felt that every British subject, even those who were in fact citizens of Portugal and making the claim with a falsified pass-

port, could depend on the protection of the British navy, unless of course they were Irish tenants from his Sligo estates.

This is where the matter stood until January 15, 1850 when the British fleet under Admiral Parker dropped anchor off Piraeus. Since Admiral Parker paid the usual courtesy call on King Otho, the Greek government had no reason to suspect that anything out of the ordinary was afoot. That situation changed dramatically on the following day when the astonished Greek foreign minister Londos received an ultimatum informing him that if the Greek government did not pay Pacifico's claim within 24 hours, the British navy would start seizing Greek ships. At this point the French and the Russians, who were co-guarantors of the 1832 loan which Rothschild had come to collect during Easter of 1847, attempted to mediate the dispute, an offer which the British Leviathan turned down, choosing to rely rather on the brute force of their navy. By the time the dispute had been resolved on April 19, France had become so enraged at Britain's high-handed, unilateral behavior that she threatened to go to war over the incident. The Russian foreign minister, in a similar mood, chastised Britain for:

abusing the advantages which are afforded her by her immense maritime superiority, intends henceforward to pursue an isolated policy without caring for those engagements which bind her to other cabinets. . . . and to authorize all great powers on every fitting opportunity, to recognize towards the weak no other rule but her own will, no other right but their physical strength."⁵¹

Palmerston rejected the protest, but his high-handed and ultimately inexplicable recklessness in antagonizing sovereign allies for the repayment of an insignificant sum to a dubious claimant landed him in political hot water at home. "Queen Victoria," according to Ridley, "thought it absurd of Palmerston to pick a quarrel with a foreign government because some English rascal had been flogged somewhere abroad."⁵² If so, it would be even more absurd to enforce the claims of someone who was not even a British subject. Lord Stanley stated just that and claimed that Palmerston had forced Greece to pay what amounted to a fraudulent claim when he brought the matter before Parliament. Eventually his arguments carried the day when Palmerston was censured by a vote of 169 to 132. Palmerston, however, adroitly turned the vote of censure into the greatest victory of his political career through a speech he made on the second night of the debate.

Once the speech was published in the papers, he was able to snatch victory from the jaws of defeat. Palmerston claimed that the issue was a simple matter of principle. The British government had a duty to protect British subjects and enforce their claims against foreign governments whenever they failed to get redress on their own.⁵³ Just as the citizen of Rome could say *Civis Romanus sum*; "so also a British subject in whatever land he may

be, shall feel confident that the watchful eye and the strong arm of England will protect him against injustice and wrong.”⁵⁴

The statement was so patently preposterous, especially in light of how the Irish were being treated, that it is difficult to see how anyone, even the English newspaper reader, could take it seriously. Palmerston’s logic becomes more comprehensible when Ridley points out the obvious mercantilist subtext to Palmerston’s speech when he writes that “the British subjects who benefited most from Palmerston’s vigorous protection were merchants and business men.” But he gets even closer to home when he points out that Palmerston used the British navy to resolve “the difficulties which arose when he insisted that British merchants should be permitted to perform their contracts to export food from countries where there was a famine or a food shortage.”⁵⁵ By defending Pacifico, Palmerston was in reality defending the rights of Irish landlords to export food even when the local population was starving to death. He was defending the behavior of the Irish landlords during the potato famine. He was defending the most extreme version of the pagan notion of contracts: *pacta sunt servanda*, even if it meant starvation for those who would have benefited from their interruption for humanitarian reasons.

Palmerston’s intentions became clearer still when he brought up the fact that Pacifico was a Jew and claimed that he could not accept the premise that “because a man is of the Jewish persuasion, he is fair game for any outrage.”⁵⁶ Suddenly he struck a chord with the opinion makers in the press, who “praised Palmerston for . . . protecting the oppressed Jew, Pacifico.” After all, hadn’t “our immortal bard,” written “Hath not a Jew eyes?”⁵⁷

The censure then melted away under the heat of media-orchestrated public opinion. When Gladstone responded by talking for over three hours on the need for observing a code of morality in international affairs,⁵⁸ he was ignored. By pandering shamelessly to Jewish-orchestrated public opinion, Palmerston routed the Parliament which had censured him and, after his victory, was feted by 250 members of the Reform Club, who sang “God Save the Queen” and then, in a touch that Palmerston’s starving Irish tenants would have noted with mordant irony, sat down to a nine-course dinner which featured 81 different dishes.

Why was Palmerston so solicitous of a Portuguese Jew who had renounced his citizenship but nonetheless wanted assistance in collecting his debts from the Greeks? Perhaps it was because Pacifico was acting as a proxy for the Rothschilds, who were bankrolling the government’s projects across the world, including the Suez Canal. The Rothschilds needed some spectacular proof that the British government was willing to enforce the usurious contracts that allowed them to expand the empire at the hapless debtor’s expense. But, moving closer to home, perhaps it was because

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Palmerston himself was hopelessly in debt and needed the favor of Jewish moneylenders like the Rothschilds to roll over his loans.

Endnotes

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Chapter Seventy-Seven

The Revolution of 1848

On June 14, 1846, James de Rothschild invited 1,700 of his closest friends to celebrate the opening of the Chemin de Fer du Nord, the rail line linking Brussels and Paris.¹ Hobsbawm tells us that "the third quarter of the 19th century was, in quantitative terms, the first real railway age."² On July 8, less than a month after Rothschild celebrated the triumphal progress which came about through the marriage of capitalism and technology, a train traveling to Brussels on the same line derailed when the tracks which had been laid alongside a marshy lake gave way and between 14 and 29 people died.

The reaction in the press was immediate and furious: "*Dans toute l'Europe, il n'y a qu'un cris a bas l'infame famille des Rothschild. . . Le People se vengera! Le peuple ne veut pas l'argent qu'il a perdu . . . mais le peuple veut la peau des les infames juifs.*"³ One of the people who called most loudly for skin of the infamous Jews was the journalist George Dairnvaell, who accused the Rothschilds of negligence in the construction of the Chemin de Fer du Nord and then used the railroad accident as a platform from which he attacked the way the Rothschilds in particular and the Jews in general treated the French people, claiming that:⁴

They have enriched themselves from our impoverishment and from our disasters . . . they have stayed with us the way a leech stays on a man's vein . . . [like] the vampires of commerce and the scourges of nations . . . The Rothschilds have only ever gained from our disasters; when France has won, the Rothschilds have lost. This house is our evil genius.⁵

Unlike the Rothschilds' involvement in usury, which stretched for generations back to the Frankfurt *Judengasse*, James de Rothschild's involvement in railroad construction was comparatively fortuitous and, more importantly, new. Nathan, James's elder brother and the richest of Mayer Amschel's sons had taken "no part whatever"⁶ in the great English railroad build out which followed the opening of that country's first railroad line between Liverpool and Manchester in 1830.

With Nathan's death in 1836, Rothschild family policy began to change, and the Rothschilds began to be drawn to the short term profits which could be earned by issuing railway shares to the public, especially when European governments were issuing fewer and fewer new bonds.⁷ The transition was not difficult because the underwriting techniques were essentially the same. "By the late 1840s, the Rothschilds had firmly established

themselves as the pre-eminent private financiers of continental railway construction."⁸ Because of James's power in the bond market he could use his influence with government officials to get railroad concessions, which is how he achieved control over the Nord line, which meant that he would garner the lion's share of "the immense capital gains realized by investors in industry during the second half of the century."⁹ In addition to being well-positioned because of his involvement in the bond market, James had "direct familial" access to both British capital and technology, which were considerably in advance of what the French had available from domestic markets. Ferguson claims that "half the capital invested in French railways by 1847 was British and only a quarter of French locomotives were domestically produced."¹⁰

Rothschild involvement in railroad construction also had its downside. It made them "obvious targets for the new social revolution which was already in preparation"¹¹ because their new-found prominence cast them in the role of "exploitative capitalists in their own right"¹² rather than invisible behind-the-scenes financiers.

The initial reaction of the Rothschilds to the Fampoux train wreck was to blame the press, a reaction which expressed "a degree of callousness towards the victims of the Fampoux accident."¹³ James wrote that:

Instead of behaving as they do in England where they don't discuss any accident and provide statistics to show how rarely accidents happen on the railways—when Huskisson lost his life in Manchester the talk was . . . not that the railway was to blame—in Paris they do exactly the opposite.¹⁴

According to Ferguson, "James's influence over sections of the French press was an important weapon in his railway policy."¹⁵ The Rothschilds feared adverse publicity "because of its likely impact on the share price."¹⁶ "There is no escaping the fact that Anthony and his brothers' primary concern was to limit the damage to the Nord share price by intervening on the Paris market and resuming normal service on the line as quickly as possible."¹⁷ The antidote to adverse publicity was not changing the procedures for constructing and running the Nord line to ensure greater safety. It was purchasing favorable publicity from the many journalistic outlets the Rothschilds controlled. James told one of his subordinates, "you will do well if you will arrange through Perirer for an article to be published against these newspaper articles."¹⁸

Dairnvaell's indictment of the French branch of the Rothschild family found its roots in Napoleon's emancipation of the Jews, but it was only the mid-point of a trajectory of criticism that would reach its peak during the 1880s and 1890s and find its culmination in the Dreyfus Affair. Twenty years before Dairnvaell wrote about the Fampoux train wreck, Friedrich List referred to "Rothschild, the pride of Israel, the mighty lender and mas-

ter of all the coined and uncoined silver and gold in the Old World, before whose money box Kings and Emperors humbly bow.”¹⁹ In the same year, Fournier-Veneuil claimed that:

The Jew Rothschild and his co-religionists . . . see in the kingdom of the heavens no more than . . . money devoted to usury . . . it is a singular race of men; I am not intolerant, but Napoleon, in calling together the grand Sanhedrin did not create a [new] Frenchman. They are still Jews and nothing but Jews. I do not hold it against them that they retain their faith; but I reproach them for profiting from all quarrels, for charging them up; they are everywhere. They were in Poland on the corpses of our brothers; they are [currently] suppling Ibrahim [Pasha], and they are dancing at this very moment on the tomb of Achilles.²⁰

Heinrich Heine, the Jewish convert who would take part in the Revolution of 1848 and would become an asset and friend of James Rothschild, once described the Rothschilds as the quintessential revolutionaries because they dissolved the wealth and power based on landed capital and turned it into mobile pieces of paper called bonds, but Karl Marx had set the tone for this age in 1844 when he identified Jews with capitalism. Marx, who was in Paris at the time, was only following the lead of the French journalists who identified Jews in general and the Rothschilds in particular with alien control of the French political process and culture. In *Zur Judenfrage*, Marx wrote:

The Jew, who in Vienna, for example, is only tolerated, determines the fate of the whole Empire by his financial power. The Jew, who may have no rights in the smallest German states, decided the fate of Europe. This is not isolated fact [continued Marx]. The Jew has emancipated himself in a Jewish manner, not only because he has acquired financial power, but also because . . . money has become a world power and the practical Jewish spirit has become the practical spirit of the Christian nations. The Jews have emancipated themselves insofar as the Christian have become Jews.²¹

Alphonse Toussenel’s pamphlet, “The Jews: Kings of the Epoch: A History of Financial Feudalism,” took the Fampoux incident and made it paradigmatic of the financial corruption of France. In order to finance the Nord line, the government had granted the Rothschilds all profits accruing to the line for the next 40 years while at the same time saddling the nation with all of the expenses accrued during its construction.²²

Shylock might have claimed that his ducats copulated faster than Laban’s ewes and rams, but he could hardly claim that they could create a railroad without the collaboration of human labor. Railway construction, in other words, had made the labor issue inescapable, while at the same time destroying the Rothschilds’ invisibility as behind the scenes financiers. Toussenel claimed that the Jews got all the profits after the laborer did all the work. “The enormous profits” generated by the railways came partly from the “labour of the French worker and artisan. . . . Who pays for

the speculator's premiums of hundreds of millions? The worker, the people. Who suffers on account of the ignorance and cowardice of those in power? The people."²³

What was true when the Rothschilds were only involved in finance became *a fortiori* true when they got involved in railroads. Railroads were more visible than bonds. They required huge amounts of labor in their construction. They changed the physical world dramatically. They embodied the age of steam and steam-based technology. And so a train wreck was, in many ways, the worst thing that could happen to the Rothschilds because it crystallized the feeling among the masses that the Jews were taking over the world.

The railroads made the labor issue inescapable, and the labor issue led in turn to anti-Semitism because the Jews did not need to work because, as a result of usury, their money worked for them. Toussenel claimed that government officials were nothing more than representatives of Jewish high finance, "a single cosmopolitan, Jewish haute banque, personified by 'Baron Rothschild, the King of Finance, a Jew ennobled by a very Christian King.'"²⁴ According to Heine, the "ruling aristocracy of money" exercised "more and more control every day over the rudder of state." "Soon those people will constitute not only the supervisory board of the railway company, but also the supervisory board of our entire civil society."²⁵ The Fampoux train wreck drew the public's attention to the Nord concession, which in turn exposed the the "fundamental rottenness"²⁶ of the July monarchy's dealings with the Jews.

Like Karl Marx, Toussenel "essentially equated Judaism and capitalism: James was 'the Jew Rothschild, king of the world, because today the whole world is Jewish.' The name R 'stands for a whole race—it is a symbol of a power which extends its arm over the entirety of Europe.'"²⁷ The French Revolution had led to widespread disillusionment among its proponents because the bourgeoisie, the class which had triumphed over the Church during the revolution, had "bent its knee before the Jewish golden calf" and embraced the "Jews' hereditary doctrine of unlimited expansion of property."²⁸ As a result, the Rothschilds came to symbolize, "a system which is responsible for the misery and desperation of millions of men."²⁹

The simultaneous rise to prominence of the Rothschilds and the railways they financed in France combined with the equally contemporaneous rise of socialism to create "the most dangerous of all threats to the Rothschilds' position in the years which lay ahead."³⁰ The callousness of their reaction to the Fampoux incident guaranteed a violent response, and that violent response took less than two years to arrive.

As Engels had indicated in his book on the development of socialism, the French Revolution had broken the Catholic Church's control of French

culture and with that control any necessity for restraint which the rich and powerful might have felt in dealing with the working class, which was subjected to a reign of ruthless exploitation unknown in the centuries when the Catholic Church controlled France. In "The Eighteenth of Brumaire of Louis Bonaparte," his *post mortem* on the revolution of 1848, Karl Marx remarked famously that "all great, world-historical facts and personages occur, as it were, twice. . . the first time as tragedy, the second as farce."³¹ In his list of tragical revolutionary figures and their farcical revenants, Marx forgot to add Louis Philippe Orleans, scion of the revolutionary aristocrat who changed his name to *Philippe Égalité* just in time to have his head lopped off by the revolution he had helped conjure into existence. Louis Philippe may have had both aristocratic and revolutionary forebears, but he was a businessman at heart, and as such he epitomized the new reign of Mammon in France which grew up in the wake of the French Revolution.

In discussing the same sort of transformation in England a century earlier, Marx opined that "Locke supplanted Habakkuk."³² Marx could have demonstrated the transition more graphically by explaining how Praise-god Barebones, the Puritan revolutionary, begat both literally and intellectually by way of reaction, Nicholas Barbon, the capitalist, but it was a point that was equally applicable to revolutions in France, where disruption of the Catholic social order led to ruthless economic exploitation of the weak by the financially strong. Jacques Lafitte, the banker and politician, summarized the situation best, when he opined in 1830 as his protégé Louis Philippe ascended to the throne, "From now on, the bankers will rule."³³

Louis Philippe's determination to use the French throne to amass a huge personal fortune alienated larger and larger portions of the French population over the course of his 18-year reign. By 1848, on the eve of the revolution which would drive him from both the throne and France, Louis Philippe had restricted the franchise to about one percent of the population, excluding the entire middle class from the political arena.³⁴ As a result, political opposition began to grow, coalescing in July 1847, after political assemblies had been banned, around a series of political "banquets," which conjured shades of 1789 by invoking the holy names of liberty, fraternity and equality. Alexis de Tocqueville, who had become famous as the author of *Democracy in America*, wrote a memoir in which he claimed that greed had cut society in two: "those who had nothing united in common envy, and those who had anything united in common terror."³⁵ As a result, living in France under the reign of Louis Philippe was like "sleeping together in a volcano." The revolutionary storm was already on the horizon.³⁶

Tocqueville's premonitions corresponded in time to the first reports of potato blight in Ireland and the publication of Friedrich Engels book on *The Condition of the Working Class in England*. By 1846, the intellectual benefit

of the doubt which Adam Smith had granted to Capitalism had expired. The potato famine in Ireland and the condition of the workers in England proved beyond any shadow of a doubt that there was no invisible hand to rescue individual self-seeking from its inevitable *telos* in wretched excess for the rich and unrelieved misery for the worker. It could be argued that the crisis in Ireland came about because of a fluke of nature known as *phytophthora infestans* (It could also be argued that the potato blight in Ireland merely exacerbated the problem of starvation in Ireland, which was both endemic and systemic), but the same could be not said of the condition of the working classes in England, whose misery could be deduced from the decision to turn human labor into a commodity which was subject to the economic forces of supply and demand. Ricardo first broached the idea, but it received its name, the iron law of wages, from a German Socialist and contemporary of Marx by the name of Ferdinand Lassalle.

Over the course of 1846, the potato blight set off a chain reaction that precipitated in short order a financial crisis and then a revolution. The Paris branch of the House of Rothschild got drawn into the financial turmoil that would lead to the revolution of 1848 when the Banque de France faced a "crisis in the supply of money," to cite James de Rothschild's words, in October 1846.³⁷ Ferguson claims that "the transmission mechanism which linked the economic crisis of 1847 to the political crisis of the following year was fiscal. All over Europe, the combination of rising expenditures . . . and falling revenues . . . led inevitably to government deficits."³⁸

By February of 1848, at the dawn of that revolutionary year, Salomon Rothschild's exposure "approached 4.35 million gulden," which is to say, "more than double the capital of the Vienna house in 1844."³⁹ The same ruthless economic policies of Louis Philippe that led Pierre-Joseph Proudhon to conclude that "property is theft" provided the tinder waiting to be ignited by the revolution 1848, but the spark which set it off was *phytophthora infestans*, the same potato blight which caused mass starvation in Ireland. The failure of the potato crop forced governments throughout Europe to buy food abroad, which caused their gold reserves to dwindle, which caused them, according to the principles of the gold standard, to contract the money supply, which crashed the economy and brought the citizens who suffered most from the crash out into the streets to man the barricades once again.

After centuries of development and decades of heightened expectation following the publication of Adam Smith's book, the reaction to Capitalism's empty promises was both sudden and violent. Sensing the political threat which the campaign of the banquets posed to his regime, Louis Philippe banned all political banquets in February 1848. Anger over the outlawing of the political banquets brought crowds of Parisians flooding

out into the streets at noon on 22 February 1848. The Citizen King, Louis Philippe shared the brunt of the mob's ire with his chief minister for foreign and domestic policy, Francois Pierre Guillaume Guizot. When Guizot resigned the following day, Louis Philippe was left to bear the mob's ire alone. When one of the soldiers who had been sent to defend the Ministry of Foreign Affairs accidentally discharged his weapon, the rest of the soldiers fired into the crowd, and 52 people were killed. At that point all of Paris rose up and began marching toward the royal palace. Sensing that the end was near Louis Philip abdicated and fled to England.⁴⁰

On 26 February 1848, the Second Republic was called into being and the poet Alphonse de Lamartine appointed head of the provisional government, a post which he held until elections for a Constituent Assembly in April. During this time, universal male suffrage was imposed, enfranchising nine million new voters, and Jean Joseph Louis Blanc proposed not only relief for the unemployed but National Workshops which guaranteed French citizens the "right to work."⁴¹

The revolution quickly spread eastward. By March 2, it had reached Baden in southwestern Germany, where the Grand Duke was forced to grant a new constitution. Within days, the rulers of Hesse-Kassel, Hesse-Darmstadt, and Wuerttemberg were forced to institute the same sort of reform.⁴² On March 6, the revolution reached Bavaria, forcing King Ludwig to abdicate. On March 11, barricades went up in Berlin, and two days later the same revolutionary fervor reached Vienna and Hungary.

Nothing epitomized the collapse of the new world order created by the Congress of Vienna after the defeat of Napoleon better than the arrival of the revolution in Austria, the bulwark of conservative reaction. And nothing epitomized the causes behind that collapse better than the flight of Metternich, its architect, in the face of the revolution his service to Rothschild interests had helped provoke. Metternich received news of the Paris revolution from a Rothschild courier. When he resigned from office on March 14, the only thing that allowed him to flee the revolution his service to Mammon had created and pay his family's passage to England was a letter of credit from Salomon Rothschild, "his faithful banker."⁴³

By March 18, the revolution arrived in Milan and spread southward throughout Italy until it reached Sicily, which already had a revolutionary government in place after being the first state to revolt in January 1848. "Within a matter of weeks no government was left standing in an area of Europe which is today occupied by all or part of ten states."⁴⁴

After Louis Philippe abdicated and fled to England, the Rothschilds were seized by panic. Shortly after 58 demonstrators lost their lives in front of the Foreign Ministry on the rue de Capuchins, Nat, who like his brother James, had sent his wife and children to Le Havre for passage to England,

wrote to his brother in England, "We are in the midst of the worst revolution that has ever happened. You may perhaps see us shortly after this reaches [you]."⁴⁵ Charlotte Rothschild painted an even blacker picture when she admitted that the Rothschilds, "whose wealth only two months ago exceed the reserve of the Bank of England, have lost the greatest part of that wealth."⁴⁶

Ironically, the same *phytophthora infestans* which caused the revolution of 1848 on the continent prevented the revolution in Ireland. In Ireland there was no urban proletariat because there was no industry. What little manufacturing the Irish had had been wiped out by the cheap manufactures that flooded Ireland after the Act of Union of 1807. The Irish tenant farmers subsisted entirely on the potato. When the potato crop failed, they starved. Those who did not starve to death were too poor to buy guns or too weak to wield them effectively.

Those obvious conditions notwithstanding, the Irish got swept up into the revolutionary fervor of 1848 with little or no concern about their own revolution's likelihood of success. On March 15, 1848, the revolutionary Young Irelanders held a meeting at the Music Hall on Abbey street in Dublin, at which William Smith-O'Brien announced that an Irish brigade was in the process of being recruited in the United States. In addition, Smith-O'Brien adverted to the fact that one-third of the British Army consisted of Irishmen, who would presumably mutiny the moment the word went out from revolutionary headquarters in Dublin. "In a torrent of enthusiasm, hesitations were swept away and the Young Irelanders embarked on armed rebellion."⁴⁷ The British government responded to this torrent of enthusiasm by sending 10,000 troops into Dublin over the course of the summer of 1848, along with 17,000 stand of arms with 1.5 million rounds of ammunition.⁴⁸

After months of planning which were long on enthusiasm and short on everything else needed for a successful revolution, 6,000 men armed with pikes, pitchforks and a few fowling pieces assembled near Mullinahone to confront the British army. By the morning of Wednesday, July 25, the 6,000 revolutionaries had all melted away because "the majority had come in the expectation of being fed,"⁴⁹ and when no food was forthcoming the Irish revolutionaries returned to their homes.

"The events which followed, known as 'the '48,'" Woodham-Smith tells us, "make painful reading. . . . 'Never in all history,' . . . was an insurrection conducted so ineptly."⁵⁰ The most inept part of the insurrection in Ireland in '48 was its lack of intelligence. Unbeknownst to the revolutionaries, Lord John Russell had sent his father-in-law Lord Minto, Lord Privy Seal, on a secret mission to Rome when the first sign of revolution dawned on the continent and threatened to spread to Ireland. During the famine,

the Catholic clergy stood by their starving flock. However, after that flock embarked upon the path of armed insurrection, "it was no longer possible to count their supporters among the younger priests,"⁵¹ largely because of the "intense British pressure" which Lord Minto had brought to bear on Pope Pius IX:

At the beginning of February 1848, any hope of clerical support for an insurrection vanished. In a Papal Rescript dated February 5, Pope Pius IX admonished the Irish priesthood and forbade political activities. . . . Catholic prelates of Ireland were required by the Sacred Congregation to admonish the clergy, to sedulously apply themselves to watch over the spiritual interests of the people and in no way to mix themselves up with worldly affairs.⁵²

After the ringleaders of the '48 were rounded up, treason laws were changed to allow for transportation and that provided "the effectual means of sending Messrs. Mitchel, Meagher and Smith O'Brien to Botany Bay."⁵³

The situation on the continent was different. Unlike the Irish peasants, who grew their own potatoes, the urban proletariat paid cash for its food, which consisted of both bread and potatoes. When the potato crop failed on the continent, the workers there had to spend more of their limited incomes on bread, which increased in price because of the increased demand which resulted from the disappearance of the potato from the market, but they did not starve to death. The hardship which followed the potato famine in Ireland was so severe that it killed any possibility for rebellion. People who are starving to death are too weak to fight, even if they could afford to buy weapons, which they could not. The revolution of 1848 was, as a result, a miserable failure when it arrived in Ireland.

Because the urban proletariat on the continent could still buy bread, albeit at higher prices, the hardship which ensued from the failure of the potato crop there had the exact opposite effect. It fueled the rage of the worker, and that rage soon found expression in open rebellion. One of the great mysteries surrounding the Revolution of 1848 is its spontaneous character. It swept through Europe in a way that defied human causality. The one factor that resolves that mystery and explains the seemingly inexplicable causality behind the Revolution of 1848 is the ubiquity of potato blight in the potato consuming countries of northern Europe.

The second factor, which is closely related to the first, is the gold standard. When the potato crop failed during the period which lasted from 1846 to 1847, every European government was forced to buy food from abroad, mainly from America. Payments for foreign goods had to be made in gold. The principles of the gold standard decreed that the moment that gold left a nation's vaults, the money supply had to contract. This was accomplished by raising interest rates and cutting off credit, which crashed the economy in 1847 every bit as inexorably as it had crashed the economy

ten years earlier in 1837. Given the gold standard that was the basis of the world economic system, the potato blight led to increased food purchases abroad, which led to the export of gold, which led to the contraction of credit, which led to the crash of 1847, and the crash of 1847 led to the Revolution of 1848. The same *phytophthora infestans*, in other words, which led to a million deaths by starvation and massive emigration in Ireland led to revolution on the continent.

Toward the end of February 1848 an anonymous pamphlet entitled *Manifest der Kommunistischen Partei* appeared in London. It was the work of two young German exiles, Karl Marx, who was 30 years old at the time, and Friedrich Engels, who was 28. Engels had been in Paris from October 1847. He had a first hand knowledge of the campaign of banquets which had led to the fall of Louis Philippe. He was intimately acquainted with the events which led up to the Revolution of 1848 in France and had documented them in a series of articles,⁵⁴ which prompted the Workers' League to contact Marx and Engels in November 1847 and ask them to propose a "detailed theoretical and practical programme of the Party"⁵⁵ which could serve as an alternative to the Capitalism that had plunged the world into turmoil. Marx and Engels obliged by writing the *Communist Manifesto*.

Perhaps no document in history has had such an intimate connection to the events of its day. The German version appeared in London just weeks before the revolution broke out in February. The French version appeared in Paris shortly before the crucial June insurrection of 1848. The Communist Manifesto was born out of a close reading of revolutionary events in France, and before the fateful year of 1848 was over, it began to direct those events when the proletariat rose up against the bourgeoisie wing of the revolution in June. It certainly seemed as if a spectre were haunting Europe and that the name of that spectre was Communism, which could now articulate the history of "all hitherto existing society" as "the history of class struggles."⁵⁶ Contemporary events seemed to be unfolding according to the plan which Marx and Engels were proposing.

As with his earlier attack on List, Marx derived the principles of Communism from English models, specifically Newton's appropriation of Empedocles, who felt that motion came about because of the interaction between love and strife. Newton, who was conversant with Empedocles via the alchemical tradition, transformed love and strife into inertia and gravity, and Marx took both thinkers a step further by making all motion a function of the relationship between "oppressor and oppressed," who "stand in constant opposition to one another" and carry on "an uninterrupted, now hidden now open fight, a fight that each time ended in a revolutionary re-constitution of society at large, or the common ruin of the contending classes."⁵⁷ All of history, according to Marx and Engels, "has been a history

of class struggles.”⁵⁸ The conflict between master and journeyman during the era of the guilds has been replaced in the wake of the French Revolution with the splitting up of society into “two great hostile camps, into two great classes facing each other: Bourgeoisie and Proletariat.”⁵⁹ After the bourgeoisie emerged victorious in the wake of the French Revolution, it

put an end to all feudal, patriarchal, idyllic relations . . . and has left remaining no other nexus between man and man than naked self-interest, than callous “cash payment.” It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism in the icy water of egoistical calculation. It has resolved personal worth into exchange value, and . . . has set up that single, unconscionable freedom—Free Trade. In one word, for exploitation veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation. It has converted the physician, the lawyer, the priest, the poet the man of science, into its paid wage laborers.⁶⁰

Marx and Engels also planned to abolish protective tariffs. In his introduction to *The Communist Manifesto*, Harold Laski argues that Marx’s reference to protective tariffs “is primarily a thrust at Friedrich List—who had died only the year before—and his system of German national economy based upon a closed customs union as the unit of prosperity.”⁶¹ This reference links the *Manifesto* to American economic literature, especially Alexander Hamilton’s *Report on Manufactures* (1791) and the writings of Henry C. Carey, to which Marx and Engels “gave careful attention.”

“National differences and antagonisms between peoples are vanishing gradually from day to day owing to the development of the bourgeoisie, to freedom in commerce, to the world market, to uniformity in the mode of production and in conditions of life corresponding thereto.”⁶² Marx also claimed that a world (not English) literature would emerge in place of national literatures [in Esperanto?], and that a bourgeois way of life would eliminate national modes of life. For Marx “national” was synonymous with “premodern.” Because “The working men have no country” and because “We cannot take from them what they have not got,”⁶³ Communists came to resemble the deracinated Jews who were:

on the one hand, practically, the most advanced and resolute section of the working-class parties of every country, that section which pushes forward all others; on the other hand, theoretically, they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement.⁶⁴

In destroying the feudal world, the bourgeoisie has “given a cosmopolitan character to production and consumption in every country” and has therefore unwittingly brought about the rise of the Proletariat, which will destroy bourgeoisie culture and establish the universal kingdom of man emancipated from all religious, ethnic, familial and moral bonds:

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But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons—the modern working class—the proletarians.⁶⁵

The engine which will bring about the destruction of Capitalism is none other than Ricardo's Iron Law of Wages, which will force the worker, who is faced with bare subsistence if he can work and starvation if he can't to rise up and destroy the social order which is oppressing him. Once that social order has been destroyed, the dictatorship of the proletariat, which is Marx's term for the millennium, will then ensue, bringing peace and prosperity.

What looks like liberation, however, is really control. Marx claimed that the inauguration of the revolution would come about automatically as a result of the increasing misery which inevitably followed in capitalism's wake:

The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces . . . What the bourgeoisie, therefore, produces, above all is its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.⁶⁶

Unfortunately, by promoting revolution via increased misery, Marx not only removed any possibility for ameliorating the workers' lot, he also stripped the worker of the social institutions which made his life possible under the extreme conditions imposed on him by the capitalist economy. The worker, in short, is offered up on the altar of revolution. He becomes an expendable cog in the revolutionary mechanism. The mission of the proletariat is to "destroy all previous securities for, and instances of, individual property. . . . The French Revolution for example, abolished feudal property in favor of bourgeois property. The distinguishing feature of Communism is not the abolition of property generally, but the abolition of bourgeois property. . . . In this sense, the theory of Communism may be summed up in the single sentence: Abolition of private property."⁶⁷

There is a distinction here that has been carefully ignored by capitalists and communists alike. The bourgeois property championed by the French Revolution was not identical to private property, but only represented its extreme and absolute form. Like many extremes in the moral world it is vicious and brings about its opposite by way of reaction. Aristotle and St. Thomas Aquinas were champions of private property, but they recognized the vicious nature of absolute private property. They correctly held that private property must be conditional in order to be moral.

St. Thomas taught further that private property of the conditional type was a necessity of fallen human nature. This was the moral foundation upon which Christian feudalism was built, but it could just as well have been the basis for other systems of conditional private property as well.

The distributist's objective of widely distributed private property is another possibility, but there are many more. The social encyclicals of the Catholic Church have been consistently recommending conditional private property for over a century to a world that now wants to believe that anything that is not absolute private property is not private property at all but rather Proudhonian socialism.

The French attack on feudal property was only a belated appropriation of the Protestant attack on conditional private property that had formed part of the political support that the Reformation needed for its success two centuries earlier. Perry Anderson recognized that politically and economically the leaders of feudal Europe only ever had conditional control and this was transformed through the theological novelties of the Reformation into absolute political power and absolute private property:

In other words, with the reorganization of the feudal polity as a whole and the dilution of the original fief system, landownership tended to become progressively less 'conditional' as sovereignty became correspondingly more "absolute." The weakening of the medieval conceptions of vassalage worked in both directions: while it conferred new and extraordinary powers on the monarchy, it as at the same time emancipated from traditional restraints the estates of the nobility. ... Individual members of the aristocratic class, who steadily lost political rights of representation in the new epoch, registered economic gains in ownership as the obverse of the same historical process.⁶⁸

The Protestant/capitalist nexus that Max Weber described in detail had produced absolute private property as a corruption of Christian private property as it had previously existed in its conditional feudal form. The English Enclosure movement was absolute private property clearing the commons for the personal enjoyment of the lords. Without the commons as the last location where a man could apply his labour freely to support his family, the English working man was entirely at the mercy of wages for his support which led logically enough to Ricardo's dismal law of wages.

The English commercial prominence was achieved partly because of its leadership in creating the idea of absolute private property. At the time of the French Revolution the English were able to describe private property as: "that sole and despotic dominion which one man claims and exercises over the things of the world, in total exclusion of the right of any individual in the universe."⁶⁹ To the extent that the French Revolution was a creature of the British liberal movement, it brought France into the emerging liberal tradition of despotic property. The Whigs created on the continent a movement that was in essence its own image but in appearance its apparent opposite. That British Enlightenment liberalism and continental Enlightenment liberalism are also identical in essence though in appearance political polar opposites is less well appreciated.

The rejection of conditional private property by rejecting common obligation lay at the heart of the British liberal position. Like them, the socialists, as the culmination of continental liberalism, rejected the Christian order, but the socialists could see that absolute private property did not work. Their obvious option was to adopt absolute common obligation instead.

At this point, Marx and Engels seem to anticipate a negative reaction from their intended audience, as when they write: "You are horrified at our intending to do away with private property. But in your existing society, private property is already done away with for nine-tenths of the population." It's a telling statement, and it is a tacit admission as well that the proletariat, which was largely Catholic in France, might not be of the same mind as their new-found, *soi disant* spokesmen.

The rhetorical challenge for the socialists was to reject absolute private property without admitting the legitimacy of the Aristotelian/Thomistic notion of conditional private property. To do this they had to argue that all property rights were immoral because they lent power to individuals and individuals could not be trusted to act socially. They had the positive evidence of despotic property owners of England and elsewhere and the empiricism of the Enlightenment. If others could not be trusted with power in the property area, then they could not be trusted with power in any other sphere of human action. The whole fabric of human civilization crumbles once power is viewed as vicious.

This became evident as soon as Marx and Engels moved on to the full list of things which the communists planned to abolish. Following closely on the heels of private property, "The bourgeois family will vanish . . . with the vanishing of capital."⁷⁰ Again, the reasoning is curious. If capitalism ensures that "all family ties among the proletarians are torn asunder, and their children transformed into simple articles of commerce and instruments of labor,"⁷¹ shouldn't the communists, who oppose capitalism, work to strengthen the family rather than collaborate with capitalists forces in attempting to abolish it?

Once again, the apparent antithesis of capitalism and communism is only superficial, with the deeper essential social objectives being identical. The capitalists wanted to destroy the family for economic gain, while the socialists wanted to destroy it because it represented a power structure that thwarted their vision of totalitarian hegemony. The capitalist wanted a man's children for their labour, the socialist, represented by Engels, wanted them for his pleasure.

Brushing aside nagging complications like this, Marx and Engels egg each other on to higher and higher rhetorical heights, until finally they announce that "Communism abolishes eternal truths, it abolishes all religion, and all morality. . . . it therefore acts in contradiction to all past historical

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experience.”⁷² By now it should be obvious to even the most obtuse reader that in its quest to abolish the state, ethnicity, property, the family, religion and morality, Communism is simply the culmination of the same destructive revolt against the Christian order that gave birth to capitalism, which it purported to oppose. Communism was the political fulfillment of the Reformation, as proposed by Thomas Muentzer, every bit as much as Capitalism was the economic fulfillment of the Reformation, which began when Luther and other reformers handed Church property over to the princes in exchange for their official status as state churches. When it came to the social order, communism was, to use the contemporary phrase, classical Liberalism on steroids. It proclaimed openly what Capitalism achieved *sub rosa* under the religious cover of Protestantism:

The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communistic revolution. The proletarians have nothing to lose but their chains.⁷³

By June of 1848, the revolutionaries who manned the barricades in Paris, confronted with rhetoric like this, began to have second thoughts. The peasants who supported the revolution were wondering if they might have something more than their chains to lose.

On June 23, 1848, the proletariat broke with their revolutionary allies in protest over the closure of Blanc's national workshops. The truism that all successful revolutions lead to civil wars found substantiation once again when the government asked General Louis Eugene Cavaignac to lead the army in putting down the workers' rebellion. After his return from Algeria, Cavaignac had been elected to the National Constituent Assembly in April and had taken his seat in the National Assembly in May. On June 23, he led a force of 20,000 to 30,000 soldiers from the Paris garrison against the barricades which the workers had erected in the blockaded areas of the city. Unable to break the back of worker resistance, Cavaignac was eventually forced to increase his force to between 120,000 to 125,000 soldiers before he could prevail against the working class uprising.⁷⁴

Marx felt that the petit bourgeoisie betrayed the working class by siding with propertied classes in putting down the June insurrection. The debt-burdened petit bourgeoisie were then rewarded for their perfidy when haute finance called in their loans:

Once the worker revolt was put down . . . the creditors and landlords began to assert their claims for back rent and overdue debts in court. Bankruptcies and foreclosures rose dramatically following June 1848. It was as if the petty bourgeoisie returned home after their heroic fight against the working class on behalf of the propertied classes only to find that their allies in that fight (i.e. the finance bourgeoisie) had turned against them and turned them out of their businesses

and homes.⁷⁵

Marx's explanation exculpates the Marxists for any responsibility for the failure of the revolution of 1848, but this exculpation does not bear close scrutiny. Fueled by the destructive fantasies which Marx and Engels aired in the *Communist Manifesto*, the "June Days" convinced the overwhelming majority of the French people that the revolutionary cure was worse than the capitalist disease. The French people confirmed Marx's deepest suspicions when they elected Louis Napoleon as their new leader on December 10, 1848.

Once the revolution ended in France, Russian support of Austria allowed the Habsburg armies to regroup under the leadership of Generals Windischgraetz, Jelacic, and Radetsky. The Hungarians and the Venetians capitulated in August 1849, and the revolution was over.⁷⁶ Ferguson claims that the Rothschilds survived the Revolution of 1848 because of the "concordia" uniting the London house with the houses on the continent. Concord in the family was aided in this instance by August Belmont (ne Schoenberg), scion of another family of Jewish financiers from the Frankfurter *Judengasse*, who was acting as the Rothschild's reluctant agent in New York. After a number of threats, Belmont finally dispatched a large consignment of silver to the London office.⁷⁷ It was this infusion of precious metal which allowed the Rothschilds to stabilize their precarious financial position on the continent, "where James had been left holding around 170 million francs of 3 percent rentes, now valued at roughly half what he had agreed to pay the government for them."⁷⁸ Cavaignac's suppression of the "June days" proletarian revolt was the *deus ex machina* which rescued the Rothschild family from the financial ruin which was about to ensue from their exposed position as a result of the revolutionary storm.⁷⁹ The military restoration of order allowed the Rothschilds to renegotiate the terms of their 1847 loan to the government. With the help of Finance Minister Goudchaux—who also happened to be a Jew, thus lending credibility to the conspiracy theorists—James was able to convert the 3 percent bonds of 1847 into 5 percent and turn what should have been a loss of 25 million francs into an unexpected profit of 11 million.⁸⁰

The Rothschilds had become, to use a phrase which became popular during the Crash of 2008, too big to fail. The fact that James made out like a bandit from the revolution that came close to seizing his wealth only increased anti-Jewish feeling in France. In the aftermath of the failed revolution the Tocsin des Travailleurs complained that:

although the effects of revolution pursue you from Naples to Vienna and Berlin, you remain unmoved in the face of a movement that has affected the whole of Europe. Wealth fades away, glory is humbled, and dominion is broken, but the Jew, the monarch of our time, has held his throne. . . . Is it not time that the Bank, that powerful instrument of the middle classes, should assist in the fulfillment

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of the people's destinies?⁸¹

Ferguson claims that the main reason for failure of the revolution of 1848 was the hopelessly divided nature of the revolutionary forces, and the fact that "Liberalizing bankers had little in common with disgruntled artisans who yearned to revitalize the guild system," and that "Competing nationalisms tended to cancel one another out."⁸²

In 1852 Marx wrote his own post-mortem of the failed revolution of 1848 in an essay entitled "The Eighteenth of Brumaire of Louis Bonaparte," which appeared in *Die Revolution*, a German-language magazine published in New York.⁸³ Marx's bitter diagnosis of the "June days" and their aftermath was that the "bourgeoisie" as a whole had thrown in its lot with authoritarianism and militarism in order to crush the proletarian revolution. The moral of the June days was plain to Marx:

every tyrant is backed by a Jew, as is every Pope by a Jesuit. In truth, the cravings of the oppressors would be hopeless and the practicability of war out of the question, if there were not an army of Jesuits to smother thought and a handful of Jews to ransack pockets.⁸⁴

Marx divides the failed revolution of 1848 into three sections and claims that during the June Insurrection:

The bourgeois republic triumphed. On its side stood the aristocracy of finance, the industrial bourgeoisie, the middle class, the petty bourgeois, the army, the lumpenproletariat organized as the Mobile Guard, the intellectual lights, the clergy, and the rural population. On the side of the Paris proletariat stood none but itself. . . . With this defeat the proletariat passes to the background of the revolutionary stage.⁸⁵

The June days were proof in Marx's eyes at least that the theory of class warfare was true and that it explained all of human history: "During the June days all classes and parties had united in the Party of Order against the proletarian class as the party of anarchy, of socialism, of communism." The Party of Order "had given out the watchwords of the old society, 'property, family, religion, order,' to their army as passwords and had proclaimed to the counter-revolutionary crusaders: 'In this sign you will conquer.'"⁸⁶

The more Marx describes the situation, the more the facts he marshalls diverge from the theory which is supposed to explain them. During the course of the 19th century, Marx explains, "the feudal lords were replaced by urban usurers; the feudal obligation that went with the land was replaced by the mortgage; aristocratic landed property was replaced by bourgeois capital."⁸⁷

The situation among the French peasants was exactly analogous to the situation among the English landed aristocracy: both groups were up to their eyeballs in debt:

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The mortgage debt burdening the soil in France imposes on the French peasantry payment of an amount of interest equal to the annual interest of the entire British national debt. Small-holding property, in this enslavement by capital to which its development inevitably pushes forward, has transformed the mass of the French nation into troglodytes. Sixteen million peasants (including women and children) dwell in hovels. . . The bourgeois order. . . has become a vampire that sucks out its blood and marrow and throws them into the alchemistical cauldron of capital.⁸⁸

Marx's condemnation of usury was short-lived. In *Das Kapital*, which appeared in print less than 20 years after the Revolution of 1848, Marx would defend the legitimacy of charging interest on a loan. Once again Marx obscures the real issue by imposing his own a priori categories onto the historical reality he should be explicating. When he claims that "The bourgeois order. . . has become a vampire that sucks out its blood and marrow and throws them into the alchemistical cauldron of capital," he obfuscates the real problem which is, according to his own explanation, not "capital" but usury and debt. The real "alchemistical cauldron" is not capital, but rather Marx's mind, which takes moral categories like usury and robs them of their moral force by conflating them with morally neutral entities like property and capital. As a result, Marx raises moral indignation and transmutes it into class hatred, which then finds expression in revolutionary violence, as when the Archbishop of Paris, unmistakable in his clerical garb, crossed the barricades in an effort to negotiate a truce, and was shot dead for his pains.⁸⁹

A shudder of horror and repulsion swept through Europe⁹⁰ at that moment, and the peasants and workers, whose Catholic sensibilities were offended by Marx and Engels' threats, concluded that the real reason for the failure of the revolution of 1848 was Communism. In a move that was colossal in its political stupidity, Marx allowed his hatred of Christianity to alienate the overwhelming majority of French peasants and workers, who were Catholic, and doomed the revolution to failure.

After the Revolution of 1848 failed, Germany's future could only be decided, as Bismarck would say in 1862, by "blood and iron," which is to say, military contest between Austria and Prussia, the two powers which alone had the military resources capable of enforcing a settlement upon the other German states.

There was no rejoicing in the House of Rothschild when the papacy was restored at the end of June 1849. James told his brother Carl that henceforth loans to the Vatican were to be "conditional on the granting of civil rights to the Roman Jews,"⁹¹ for as Anselm said:

The Pope [Pius IX] who was once so liberal and who brought Italy such misfortune through his overhasty reforms, is now not just wholly reactionary but, following the example of the popes of the dark Middle Ages, intolerant in the

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highest degree, I am tempted even to say inhuman. If the pope could do business with any other house, he would certainly break with us, and so compliments to the holy gentleman are not in order.⁹²

The shot that felled the archbishop of Paris was heard in Rome, where the reign of liberalism and idealism ended.⁹³ The Marxian anticlerical nature of the Revolution of 1848 transformed Pius IX into a political reactionary whose anti-revolutionary zeal blinded him to the evils of Capitalism and crippled the church's response to the worker's question. As part of the Church's cultural offensive against Communism and revolution, Pius IX decided to contest the liberal press's hegemony over political and cultural discourse by founding a magazine of his own.

In February 1850, Pius IX, while still residing Naples, ordered Cardinal Antonelli to transfer 1,250 ducats from the pope's account at the Rothschild bank in Naples to the Jesuits and declared his willingness to take on whatever financial burdens necessary to ensure the successful launching of a new review.⁹⁴ The great care the pope took in the launching of the magazine paid off when on March 20, subscription had reached 3,000. During the first three months of publication that number would jump to 6,307.⁹⁵

The name of the new publication was "Catholic Civilization" or *Civiltà Cattolica*, which published its first number on April 6, 1850. The founder of the review was a young Jesuit by the name of Carlo Maria Curci, who justified the creation of a new journal by claiming that European journalism was "the child of the French revolution, intent on propagating blasphemous and anti-Christian ideas soaked in a rationalism which was both agnostic and atheistic."⁹⁶

The Jesuits who founded *Civiltà Cattolica* were not acting on their own. The new magazine was created under the auspices of Pope Pius IX and viewed by him as the application of his anti-modernist theories, as expressed in the *Syllabus of Errors*, to the political situation of his day. *Civiltà* was to be a bulwark against modernist thought. It would allow the Church to combat the enemies of the Church with their own weapons. *Civiltà* attacked "the avarice and pride of an ugly monk in Germany, the insatiable libido of a tyrant king in England, and the cult of national unity and independence which was promoted by all sorts of demagogues in Italy,"⁹⁷ and it did so with the approval of the pope. *Civiltà Cattolica* was conceived as an instrument in the Church's intellectual apostolate, and its scope was essentially apologetic and polemical. *Civiltà* distinguished itself from the moment of its inception in a series of battles against revolutionary thought, above all against liberalism, laicism and the principles which were the inspiration for the French Revolution.

The pope's support was both spiritual and financial. The ties between *Civiltà* and the pope only became closer when Pius IX returned to Rome.

From that point onward, "*Civiltà Cattolica* was considered as an expression of the voice of the Vatican, as well as a faithful interpreter of the thought of the pope, which was well-researched and intellectually superior."⁹⁸ On February 12, 1866, the pope, pleased by the success of the magazine, granted canonical status to the editorial staff at *Civiltà* by establishing the "*Collegium Societatis Iesu Scriptorum Ephemeridi vulgo La Civiltà Cattolica*" and granting them the privileges of other colleges of the society. From this moment on, only the pope could intervene in their affairs.

Civiltà Cattolica soon became the most authoritative official organ of the papacy, a status which not even the founding of *L'Osservatore Romano* in 1861 could undermine. Both Pius IX and Leo XIII placed a very special trust ("una fiducia tutta particolare") in the Jesuits responsible for the magazine, and they reciprocated by returning that trust with a loyalty that was both absolute and deferential ("*con una fedeltà alloluta e deferente*").⁹⁹

The birth of *Civiltà* coincided with the restoration of the ghetto under Pius IX, but in its early years the magazine did not devote any particular attention to the "Jewish problem." As a sign of things to come, however, in 1869 Pius IX praised and blessed Gougenot des Mosseu's book *Le Juif, let Judaïsme des peuples chrétiens et le judaïsation*, which described the Talmud as "a savage code in which the precepts of hate and rapaciousness are mixed up with the magic doctrines of the Cabala, a book which professes the greatest idolatry imaginable."¹⁰⁰

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Chapter Seventy-Eight

Das Rheingold and the Gold Standard

The so-called Revolution of 1848 did not arrive in Dresden until the spring of 1849—that May to be exact—when the king of Saxony fled from his capital to a nearby fortified castle and appealed to the Prussians to restore order to his troubled kingdom. The Saxon soldiers were caught in the middle, since Prussia was a foreign country. Were they to stand and fight the invaders shoulder to shoulder with the Saxon insurrectionists, or were they to obey the wishes of the king and fight with the Prussian army against their fellow Saxons?¹

Since he was both a native Saxon and an aspiring insurrectionist, Richard Wagner found the former alternative more appealing and acted on it with dispatch. Wagner was the director of Dresden's orchestra, a position Kurt Mazur was to find similarly politically charged 140 years later, when the masses took to the streets in Dresden once again to revolt, this time against the revolution, not for it. In addition to his musical duties, Wagner had also taken over the editorship of his friend August Röckel's *Volksblatter*, a revolutionary broadside that threatened to cease publication when Röckel had to leave the country on short notice. Wagner went to the *Volksblatter*'s printer and ordered their biggest sheets printed in their largest type with the question "Are you with us in opposing foreign troops?"²

Unfortunately, the fliers got hung on the barricades instead, never making it to the troops for whom they were intended. Their chief effect, as Wagner later was ruefully to admit, was simply to provide evidence against him when the state charged him with high treason.

Wagner seems to have left evidence enough to allow even the most obtuse judge or jury to convict him. In addition to the singularly ineffective revolutionary fliers, there was the letter to Roeckel calling him back from exile in Bohemia and urging him to take part in the fight. The letter was found on Roeckel's person when he was apprehended during the first few days of the insurrection. Then there was the matter of an order placed with Herr Oehme, the brass founder, who testified later that Rockel and Wagner had come to him prior to Easter 1849, instructing him to make a number of hand grenades, which were destined actually for another insurrection in Prague. When Rockel came to trial, he claimed that Wagner alone had placed the order—a claim that, if intended to produce leniency, was singularly ineffective. If it was intended to incriminate Wagner, it was a work of

supererogation. Wagner was quite capable of producing self-incriminating evidence all by himself.

On April 8, 1849, Wagner waxed rhapsodic over the Goddess of Revolution stalking the land, issuing threats of the following sort: I shall destroy the existing order of things that divides united mankind into hostile nations, into powerful and weak, into privileged and deprived, into rich and poor, for its sole effect is to render us all unhappy. I shall destroy the order of things that makes millions the slaves of a few and those few the slaves of their own power. I shall destroy this order of things that divorces enjoyment from labor, makes labor a burden and enjoyment a vice, makes one person wretched by reason of deprivation and another by reason of affluence. I shall destroy this order of things that consumes men's energies in the service of dominion by the dead....³

These were strong words for a woman, even if she was a goddess, and even stronger words for Dresden's Kapellmeister, words bound to bring him into contact with others who were as perfervid as he in their desire to destroy "this order of things."

One such man was a certain "Dr. Schwartz", a man in his thirties, with thick black hair and beard, whom Wagner found "colossal and possessing a primitive freshness and power"⁴ that he found, if not irresistible, then at least attractive. "Dr. Schwartz" was, in reality, the Russian aristocrat and anarchist Mikhail Bakunin, who, in spite of being wanted by the local police, had taken an apartment in Wagner's neighborhood and had taken as well to coming to the rehearsals Wagner was conducting of Beethoven's Ninth Symphony, which was to be performed on Palm Sunday of that year. Bakunin was so taken with Wagner's rendition of Beethoven that he could not restrain himself. After one rehearsal he rushed up to the conductor and assured the bewildered Wagner that even if all of the world's music were going to be lost in the coming revolutionary holocaust, they (Bakunin and Wagner) should do everything within their power to see that Beethoven's Ninth was preserved.

A few weeks later, it looked as if Bakunin's prophecy were about to come true. On May 7, Wagner spent the night in the steeple of the Kreuzkirche reporting on the movements of the Prussian troops and dodging sniper fire. Around eleven o'clock he watched as the old opera house went up in flames and burned as only an old wooden building stuffed with linen could. It was, he said later, describing the terrible droning of the bells and the constant ricocheting of the Prussian bullets against the steeple walls, "one of the strangest nights of my life."⁵ And it was followed by one of the most beautiful days of the year. He was awakened, in proper romantic fashion, by a nightingale. On Sunday, May 8, as Wagner was hurrying through a Dresden now caught in the crossfire of revolutionary struggle, one of the insurrectionists, who had evidently attended his performance of Beethoven's Ninth, exclaimed that "one of joy's divine sparks had just

ignited that firetrap and burned it to the ground.”⁶ He was referring to the opera house, and the news filled Wagner with mixed feelings. “The report of this Pathos, which came upon me so unexpectedly, had a strangely empowering and liberating effect.”⁷

The short-lived revolution in Dresden had an even more pronounced and liberating effect on Bakunin, who could now walk the Streets freely, examining the barricades while smoking his cigar. What he saw left him unimpressed. Bakunin felt that the revolutionary guards had virtually no chance of defending their hastily erected barricades against the more disciplined Prussian troops. He spent the first few days of the revolution walking around the barricades, enjoying what he probably thought was a temporary freedom, and making fun of what he considered the amateurish attempts of the defenders.

Wagner tried to interest him in his music but quickly came to the conclusion that the only thing the black-haired Russian anarchist was interested in was destruction. “This destruction of every civilization was his enthusiastically pursued goal, and the only amusement he entertained with any cheerfulness was putting all his energies behind achieving this goal.”⁸

Shortly after the abortive attempt to distribute the fliers to the Saxon troops, Wagner offered to read Bakunin his poem on the Niebelung saga, which eventually became the four-opera Ring Cycle. But Bakunin was not interested, perhaps with good reason; the revolution might have come and gone during the reading of this extensive work. Undeterred, Wagner went on to describe a work that he was planning based on the four Gospels. Jesus of Nazareth was “a tragedy,” which Wagner was planning to have performed on “the ideal stage of the future,” presumably at some time after the nascent revolution had achieved its reforms. Bakunin showed only a little more interest in this project than in the Niebelung poem. Bakunin wished him well but was hardly willing to get involved in the details of the libretto. He had, however, a few suggestions. For starters, Wagner should portray the Christ as weak. Bakunin then had some musical suggestions as well: the music should confine itself to variations on certain texts being sung by the various choral voices. The tenors were to sing “Behead him,” the sopranos, “Hang him,” and the basso continuous (sic), “Fire! Fire!”⁹

As a librettist and musician, Bakunin was clearly ahead of his time. His Jesus of Nazareth is not difficult for us to imagine, for we have had the dubious advantage of over a century’s worth of cultural revolution to draw on, cultural revolution ad nauseam, so much so that our imagination is hardly challenged to compose the libretto out of the bits and pieces of a culture that has surpassed itself in its desire for destruction and self-immolation. Bakunin’s Jesus sounds like a cross between Martin Scorsese and John Cage.

Wagner, however, was having a more difficult time imagining the sort of music that should accompany that kind of text. ("You won't need any instruments then," Bakunin had told Wagner, referring to the period following the revolution and at the same time giving a rather prophetic look at the state of music one hundred years later.)¹⁰ The reason was simple enough. That sort of music had not been invented yet. In fact, it would take over a hundred years to come into existence, and only as the result of music Wagner had yet to write. That music would come out of Wagner's revolutionary mind-set, but not in a way that was immediately apparent to Wagner at the time. That Wagner had his heart set on a political revolution was obvious to everyone who knew him, from the people who read his revolutionary broadsides in the *Volksblatter* to the authorities who gathered enough evidence against him to put him on Saxony's wanted posters. The artist was poised to fulfill his new role even if that entailed being without instruments and opera house: one ingredient, however, was lacking: the revolution itself.

By the evening of Sunday, May 7, it had become clear to Wagner that the position of the insurrection was as untenable as his own in his role as its forward observer in the steeple of the *Kreuzkirche*. What had been "a relatively peaceful" observation post was coming under increasingly accurate and heavy fire, to the point where "unarmed men were out of place."¹¹ In addition, Wagner's wife had let him know that her anxiety about his well-being had reached the breaking point and that it was time for him to come home. Wagner left Dresden by foot on Monday, May 8, a beautiful spring day, he informs us. After meeting up with his wife at a village outside Dresden, the two of them traveled by a circuitous route, necessitated by the refugees and reinforcements clogging the roads, to his sister and brother-in-law's house in Chemnitz.

Wagner returned to Dresden a few days later. But the journey was for the most part a fool's errand. He had heard that the barricades had held, but this was only because the Prussian troops had decided not to make a frontal assault. They had decided instead to go around the barricades by breaking through the walls of the neighboring houses and then to head toward the city hall, which was the seat of the provisional government.

Bakunin, whom Wagner found lying on a mattress smoking a cigar, was trying to buck up the courage of a violinist who would cringe every time a shell exploded in the vicinity. "You're not playing the violin here," he said. "You would have been better off if you were, Musician!"¹² Bakunin's plan was to fill the *Rathaus* with all of their available powder and then blow it up when the Prussian troops broke through. He was prevented from fulfilling his plan by the fact that those opposed to it simply made off with the available explosives. Wagner saw Bakunin and Heubner, the leader of the provisional government, as both rode away armed but in full retreat

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from the debacle in Dresden. Bakunin was put in charge of the retreat, and among the first victims of his compulsion to destroy were the trees that lined the Maximilians-Allee. Bakunin had them cut down and made into a defense work against possible cavalry attack on the flanks of the retreating troops. Bakunin found the lamentation of the residents of the Allee over their trees particularly amusing, even to the point of mocking their pronunciation of the "beautiful trees" that had fallen to Bakunin's horticultural anarchism. The owner of the coach Bakunin was riding in expressed fears for his property, prompting a similar outburst of scorn on Bakunin's part. "The tears of the Philistine," Wagner remembers Bakunin saying, "are nectar for the gods."¹³

As impressive as Wagner found Bakunin and his methods, his bohemian panache, and his animal magnetism, he was forced to admit that the revolution had failed and he had to flee for his life. It was to be another twelve years before Wagner, the quintessential German composer, would set foot on German soil again, and then it was only as a result of strenuous efforts on the part of a whole host of European luminaries, including the Empress Eugenie. Wagner fled first to Weimar with future father-in-law and fellow composer Franz Liszt. When a wanted poster with his picture on it appeared in Weimar, Wagner decided to leave the Germanophone world. His original destination was Paris. After being convinced, however, that the direct way there was too dangerous, he decided to leave the German-speaking countries by way of Switzerland with the help of an expired passport formerly belonging to a Swabian professor.

Wagner's attitude toward revolution during this period is fraught with ambivalence. On the one hand, we have his letter to his wife written in mid-May, immediately after the resistance of the communal guards in Dresden had collapsed. "The Dresden revolution and its whole outcome," he wrote, "have now taught me that I am anything but a true revolutionary: the very failure of the insurrection has shown me that a truly victorious revolution must proceed entirely without scruple. He cannot afford to think of wife and child, hearth and home. His sole endeavor must be destruction, and had the noble Heubner been prepared to act thus at Freiburg or Chemnitz, the revolution would have continued victorious."¹⁴ Martin Gregor-Dellin cites this part of the letter as proof that Wagner had not recanted his previous revolutionary beliefs. His argument is not very convincing, especially in light of the more frequently cited subsequent part of the same letter in which Wagner makes plain that:

people of our sort are not destined for this terrible task. We are revolutionaries only in order to build on fresh soil; it is re-creation that attracts us, not destruction, which is why we are not the people whom fate requires. These will arise from the very lowest dregs of society; we and our hearts can have something in

common with them. You see? Thus do I bid farewell to revolution.³⁵

By late July Wagner was holed up in Zurich, hard at work on his essay "Art and Revolution." He begins by quoting approvingly Carlyle's description of the French Revolution as "the breaking out of universal mankind into Anarchy" and tells the reader, "I believed in the Revolution, and in its unrestrainable necessity, with certainly no greater immoderation than Carlyle."³⁶

The two passages are not simply contradictory; they are dialectical in a way that a Young Hegelian like Marx would have appreciated, even though the later Marx expressed more annoyance than anything else when the name of Wagner came up, as it frequently did, in conversation. The public essay on revolution is not simply a reaffirmation of the revolution Wagner had repudiated in private to his wife. It is a reaffirmation of a revolution that Wagner was in the process of subtly redefining.

Perhaps his experience of the destruction-bent but ultimately ineffectual Bakunin in Dresden was enough to convince Wagner not only that he did not have the stomach for what it took to succeed at revolution but also that the revolutionary urge for universal destruction was overrated. All that the ruthless and overpowering Bakunin could manage out of Dresden was a few smirking aphorisms and extensive arboricide. The so-called man of action, bent on destruction, treated Wagner's musical ideas with a barely concealed contempt. Only the actual performance of the music from *The Flying Dutchman* seems to have made an impression on him in much the same way that Beethoven's Ninth had. But for all that, what had Bakunin and his less ruthless fellow insurrectionists accomplished? Bakunin's thirst for universal destruction had left little more than a few dead trees in its wake. The Prussians had restored the Saxon king, and Wagner, Roeckel, von Biberstein, and the rest of the revolutionary leadership ended up either in jail or in exile. Judging from what he had to say in *Art and Revolution*, Wagner was as committed as ever to the overthrow of existing conditions. However, the scope of his rebellion had changed. His desire for change now went deeper than the political process in terms of its end and beyond the political process, beyond even revolutionary politics, in terms of the means to bring that revolutionary change about. In the aftermath of 1849, Wagner went from being a failed political revolutionary to being an enormously successful revolutionary musician.

The publication of the ostensibly radical *Art and Revolution* was in reality the beginning of a turn inward that would be consummated some years later. Wagner was still for revolution, but the terms of the revolution had changed from the political to the cultural. In redefining his vocation he put himself in a position to have much more far-reaching consequences on the society he hoped to revolutionize.

Art and Revolution was a revolutionary document, but one character-

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ized by a retreat from the political. Written under the influence of Proudhon and Feuerbach, it laid the blame for the current state of affairs at the feet of a socio-political system. Even in doing this, however, it kept refocusing on prepolitical conditions that had more to do with the human condition than with the abuses extant under any particular political system. In the modern age, there are revolutions, and there are revolutions, and virtually all of them are an incongruous mixture of *ressentiment* against the human condition as represented by a particular political institution. The revolutionary agenda espoused by Wagner and Bakunin was so politically diffuse that no political reform could have accomplished it. As a result, it is only natural that its political death would only release its revolutionary soul into freer flights of fantasy, where its disembodied soul was free to posit conditions that could never find incorporation in any political system anywhere. In other words, the events of 1848 had proved to be a powerful incitement to a revolution that was essentially metaphysical in scope and mythical in expression.

After the failed Revolution of 1848 Wagner fled to a 12-year exile in Switzerland, where he took the poem he had written on the Niebelungen and turned it into the four-opera *Ring cycle*. The first opera in that cycle and the prologue of what is to follow is *Das Rheingold*, which is Wagner's "18th Brumaire of Louis Napoleon," which is to say, his post mortem on the Revolution of 1848. But *Das Rheingold* is more than that; it is the profoundest meditation to date on the metaphysical roots of capitalism.

Following an overture which begins with a sustained meditation on one note, e flat, followed by "the longest deliberation on a single triad before Philip Glass,"¹⁷ the action of the drama begins:

at the bottom of the Rhein, where the three Rhinedaughters, Woglinde, Wellgunde, and Flosshilde, are disporting themselves in the waves. The dwarf Alberich climbs out of a dark chasm lower down and after watching the Rhine daughters at play, calls out to them. They initially recoil at his loathsome appearance, but then decide to reward his lubricious advances by teaching him a lesson. Each in turn appears to lead him on but then mocks and rejects him. As he looks up speechless with rage, a bright light shines through the waters from high above. Alberich, mesmerized by the sign, asks what it is. He is told that it is the Rhinegold, from which a ring can be made that will confer limitless power. Only he who forswears love can fashion the ring, adds Woglinde, in which case they have nothing to fear from the lascivious dwarf. But Alberich climbs to the top of the central rock, declares his curse on love, and wrests the gold away with terrible force. He scrambles away with it, deaf to the lamenting cries of the Rhine daughters.¹⁸

Like Karl Marx and William Cobbett, Wagner felt that capitalism began with theft. That theft took place at the time of the Reformation, but Wagner has transformed the theft which begat Capitalism from an his-

torical into a mythical event. Just about every commentator, including the directors of modern German productions of *Das Rheingold*, understands that Wagner is proposing a critique of capitalism, but more often than not they disagree about the details.

Roger Scruton claims that *Das Rheingold* is about the paradox of money, which derives from "the innate structure of desire."¹⁹ Adam Smith made the paradox of value famous in his *Wealth of Nations*: water and air which are necessary for life have no value, whereas diamonds, which are completely superfluous, have great value. In order to resolve this paradox, Scruton calls on the doctrine of marginal utility, made famous by the Austrian School of Economics. "For those things which satisfy a natural and recurring need," Scruton continues:

our desire is quickly satisfied; beyond a certain quantity we are surfeited. Such things have a rapidly diminishing "marginal utility"—water and air being obvious instances. As for money, its very volatility, its ability to transform itself into any shape so as to gratify now this desire and now another, means that its marginal utility hardly diminishes as its quantity grows. And precisely for this reason does it exert its terrible psychological power: the means to all ends, whose hold is endless.²⁰

Instead of claiming, as Aristotle does, that money's terrible psychological power comes from the fact that it evokes desires which it cannot sate, and therefore never suffers from marginal utility, Scruton says that money in *Das Rheingold* represents a perversion of the natural order:

It stands for the tendency of human beings to accept one thing in lieu of another, to exchange one thing for another, to situate each object in its class of substitutes. This tendency is the first temptation, the original sin. Transfer it to the human world, and the sin becomes the denial of love. This is because the object of love is the individual in his individuality, the incarnate self for which there is no substitute since he can be wanted and cherished only for the particular thing that he is. That is why those who choose this route to social power—the route of exchange and accumulation—must in their deepest being forswear love, as Alberich did.²¹

The gold of the Rhein appears to Alberich at the moment when his attempts to obtain love have been frustrated: and the gold appears as a substitute for love, which can only be seized if love is forsworn. Until seized, however, the gold is merely another aspect of the unspoiled natural order—it is light that glitters in the primeval world, and which those who play in that world must never think of capturing or owning. They are guarding it only as nature guards her resources, with an innocent unconcern for rational plans.²²

Money, however, never really enters into Wagner's discussion of capitalism in *Das Rheingold*. The gold which Alberich discovers at the bottom of the Rhein is in the state of nature; it is gold before the creation of the

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coin, which is to say before the creation of money, which begins when the image of the sovereign is stamped on a lump of precious metal and gains a value that is independent of the value of the metal and which will ultimately supersede and replace whatever original intrinsic value that precious metal had.

Scruton confuses the issue by conflating both the Rheingold, which is to say, the wealth of the nation, and the ring with money, when in fact neither is money. He then misstates his (and Wagner's) case by making claims that are true but irrelevant:

Money is entirely useless, except in so far as it can be exchanged for something useful. In an emergency, you cannot eat it, fight with it, or shelter beneath its roof. Nor can you exchange it for love, kindness, friendship, or anything else that is needed for self-growth and self-knowledge. Purchased love is not love but prostitution. Only when dealing with those who want money . . . does money become useful, and only because it can be exchanged for other things. Its utility lies in the socially sustained illusion of its utility. Upon this illusion the institution of exchange is founded. Money . . . has dominion . . . only where nothing has value but everything has a price.²³

All of what Scruton says here is true, but it is not clear how what he says about money applies to the symbols which Wagner has created to explain capitalism in *Das Rheingold*. To ask the most obvious question first. Is the Rheingold money? Or is the ring money? If both the gold and the ring symbolize money, what is the difference between the two? Wagner makes a clear distinction between the two because the ring derives from the gold, but it is not the gold. Gold is the necessary but not the sufficient condition for Alberich's power, which is based on the ring, which the Niebelungs, now Alberich's slaves, fashioned for him out of gold he stole.

The ring has given Alberich terrible power over his fellow dwarves:
Nibelungs all,
bow down to Alberich!
Everywhere now he lies in wait
in order to keep you under guard;
rest and repose
have melted away;²⁴

That power is that much more terrible because it is invisible; something Wagner symbolizes by the Tarnhelm, which Alberich put on before he delivered his speech. The fundamental meaning of the Tarnhelm, the helmet which renders its wearer invisible, is that the Capitalism as it is actually practiced is invisible to those who suffer from its effects. "No one sees me," says Alberich:

No one sees me,
though he may seek me;

Barren Metal

yet I am everywhere,
hidden from sight.
for him you must toil
where you cannot see him;
where you don't expect him,
there you shall find him:
you're subject to him for ever!²⁵

Shaw claims that the Tarnhelm, the helmet which renders its wearer invisible, is quite common in capitalist centers like London:

where it generally takes the form of a tall hat. It makes a man invisible as a shareholder and changes him into various shapes, such as a pious Christian, a subscriber to hospitals, a benefactor of the poor, a model husband, and father, a shrewd, practical, independent Englishman, and what not.²⁶

The notion of invisibility took on a life of its own. In 1891 Max Bauer had this to say about the Rothschilds in his pamphlet on Bismarck and Rothschild:

But what physical notion does the world have of Rothschild? He is never seen, just as the tapeworm remains invisible in the human body. The "house" of Rothschild is a structureless, parasitical something-or-other, that proliferates across the earth from Frankfurt and Paris to London, like a twisted telephone wire. There is neither structure nor life in him, nothing that grows on the earth, nothing that strives toward God. Bismarck's spirit is like a Gothic building. . . . These are the powers which stand antagonistically opposite one another in the political culture of our times: insatiable Jewry, that destroys life; and hearty Germandom, which generates life.²⁷

Alberich forced Mime to make the Tarnhelm according to very specific instructions, "Genau befohl er/Wie es zu fuegen," and the latter complains bitterly:

On me, the most wretched of all,
He forced the worst of all tasks:
a metal helm
he bade me weld;
he told me exactly
how to craft it.
So I wanted to keep
the helm for myself,
by means of its magic
free me from Alberich's sway –
perhaps – yes, perhaps
outwit my tormentor
and, placing him in my power,
wrest the ring away from his grasp.²⁸

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Mime acceded to Alberich's commands, thinking that he might be able to trick and overpower Alberich, but he failed because "I did not understand the magic." Mime failed to understand that the real alchemy required an understanding of capitalism, not metallurgy, which he did not have.

The ring gives Alberich this power, but when Loge asks where the power comes from he gets this answer from the dwarf Mime, who is being tortured by Alberich when Wotan and Loge arrive in the plutonic kingdom of Nibelheim:

With cunning artifice
Alberich crafted
A yellow ring
of gold from the Rhine:
at its powerful spell
we tremble in awe;
for with it he bends us all to his will,
the Nibelungs' army of night. –
Carefree smiths,
we used to fashion
trinkets for our womenfolk,
delightful gems and
delicate Nibelung toys:
we cheerfully laughed at our pains.
Now the criminal makes us
crawl into crevices,
ever toiling
for him alone.
Through the gold of the ring
his greed can divine
where more gleaming veins
lie buried in shafts:
there we must seek
and search and dig,
smelting the spoils
and working the cast
without rest or repose,
to heap up the hoard for our lord.²⁹

Alberich created the Ring with wicked treachery, and the dwarves were amazed with his powerful magic, "which now compels us to labor for him alone." The gold of the ring enables Alberich's greed to discover where new gleaming metals can be found in the mines, and "we are compelled to find it and dig it up and pour it into molds, without pause or rest, to increase the hoard of our Lord." So the source of Alberich's power is magic, but what is

the source of the magic?

Scruton confuses the issue by giving us the English Capitalist reading of the Ring, which turns Nibelheim, where the Nibelungs forged the Ring for Alberich, into "perhaps the first premonition in Western art of Orwell's 1984."³⁰ Nibelheim is the modern day "police state,"³¹ where the "power illusion," which parallels the money illusions studied by 19th century economists³² reigns supreme. Like money, which is based on the "socially sustained illusion of its utility," Nibelheim is based on:

an illusion of power which makes power real. It is exactly this that has been described by the witnesses to totalitarian government: a habit of fear and evasion, from which power arises "by an invisible hand"—power which belongs to no one and which oppresses everyone, including those who appear to wield it.³³

Scruton has evidently forgotten that "the invisible hand" is the symbol for capitalism, not totalitarian government. Nibelheim is, if anything, not the Soviet Union but rather the City of London, which is to say a symbol of Capitalism's headquarters and the ruthless exploitation of labor that is part of its essence. George Bernard Shaw comes closer to the mark than Scruton when he claims that Alberich is a "sworn plutocrat" and as such the invisible but all-powerful ruler of the capitalist empire, Nibelheim.³⁴

He is soon at work wielding the power of the gold. For his gain, hordes of his fellow-creatures are thenceforth condemned to slave miserably, overground and underground, led to their work by the invisible whip of starvation. They never see him, any more than the victims of our "dangerous trades" ever see the shareholders whose power is nevertheless everywhere, driving them to destruction. The very wealth they create with their labor becomes an additional force to impoverish them; for as fast as they make it it slips from their hands into the hands of their master, and makes him mightier than ever. You can see the process yourself in every civilized country today, where millions of people toil in want and disease to heap up more wealth for our Alberics, laying up nothing for themselves, except sometimes horrible and agonizing disease and the certainty of premature death. All this part of the story is frightfully real, frightfully present, frightfully modern; and its effects on our social life are so ghastly and ruinous that we no longer know enough of happiness to be discomposed by it.³⁵

Das Rheingold is the German version of the *Wealth of Nations*. The wealth of the German nation is portrayed as gold which lies at the bottom of the Rhein, the main artery of German commerce and culture. *Das Rheingold* is the wealth of the German nation, as symbolized by gold, which has not yet achieved the form of money because it lacks the stamp of the sovereign. It is wealth in the state of nature, guarded by representatives of the German nation, the Rheinmaidens, who guard it carelessly because they have no desire to possess it for themselves. The Rheinmaidens, who are the stewards of the wealth of the German nation, are amateurs in the classical sense of the term because they act out of love and not for money,

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which doesn't exist yet. Like Wagner himself, the Rheinmaidens make no distinction between love and sexual attraction. Since Alberich by his actions has convinced the Rheinmaidens that he is the slave of his own unmastered sexual passions, they have nothing to fear because "Only he who forswears love can fashion the ring." Or as Woglinde puts it:

Only the man who forswears
loves's sway,
only he who disdains
love's delights
can master the magic spell
that rounds a ring from the gold.³⁶

Given that fact, Wellgunde confidently claims that the Rheinmaidens have nothing to fear from Alberich because everything that lives wants love:

We're safe enough
and free from care
since all that lives must love;
no one wants to abjure its delights.³⁷

As was the case at the time of the Reformation, Alberich "privatizes" this national wealth by stealing it. Scruton claims that theft "is Alberich's route to power"³⁸ and goes on to describe Alberich's theft of *das Rheingold* as "the original usurpation by which nature becomes property and power. The subsequent forging of the ring represents the transformation of use value into exchange value."³⁹

Like Marx, who said that "Locke supplanted Habakkuk,"⁴⁰ referring to the Glorious Revolution's capitalistic appropriation of its Puritan heritage, Scruton refers us to Locke's justification of labor's appropriation of nature as something morally indefensible, the "original usurpation by which nature becomes property and power." But the evidence from *Das Rheingold* indicates that Wagner had something more specific in mind than Locke's description of man killing a deer in the state of nature as proof that labor was the source of all value. Shaw reminds us that Wagner was a revolutionary himself and that *Das Rheingold* was his attempt to understand the Revolution of 1848 and why it failed:

It must always be borne in mind that the poem of *The Ring* was complete and printed in 1853, and represents the sociological ideas which, after germinating in the European atmosphere for many years, had been brought home so Wagner, who was intensely susceptible to such ideas, by the crash of 1849 in Dresden.⁴¹

The Revolution of 1848 involved a cast of characters which ranged from "the discontented middle class, unable to rouse the Church-and-State governments of the day from their bondage to custom, caste, and law by appeals to morality" at one end of the spectrum to "the starving wage-

working class," at the other, and both "resorted to armed rebellion, which reached Dresden in 1849."⁴² Wagner meditated on the failure of that revolution for the first five years he spent in exile in Switzerland, completing the score of *Das Rheingold* "to the last drum tap"⁴³ in 1854, and concluding that the villains who thwarted Germany's attempt to re-possess its lost Rheingold were Alberich and the dwarves who did his bidding. If that is the case, who is Alberich and who are the dwarves who forged the ring out of the gold which Alberich stole from the guardians of the wealth of the German nation?

In his essay *In Search of Wagner* the Frankfurt School musicologist, philosopher, and psychological warrior Theodor Wiesengrund Adorno claimed that Alberich was a Jew. The claim is so unsurprising that the fact that it is so seldom made needs more explanation than when it is. Wagner was a creature of his age who shared the anti-Semitism that arose spontaneously throughout all of Europe during the 1840s, but particularly among "representatives of what Marx called the German Socialism of 1848."⁴⁴ Marx's *Zur Judenfrage* is a typical example of the anti-Semitic literature of the age, and Disraeli's *Coningsby*, equally typical, even if it expressed the exact opposite point of view, as were all of the French tracts in a line which stretches from Dairnvaell to *Civiltà Cattolica*'s series on the Jewish Question in 1890. Wagner's *Rheingold* is an example of that genre, which got raised above the level of pamphleteering into the sublime realm of art and myth.

Adorno claimed that "The gold-grabbing, invisible, anonymous exploitative Alberich," as well as "the shoulder-shrugging loquacious Mime, overflowing with self-praise and spite" were "caricatures of Jews."⁴⁵ Adorno claims that Siegfried's description of Mime's demeanor as "shuffling and shambling, servilely stooping, squinting, and blinking":

is reminiscent of the description of Jewish speech in the essay [which Wagner wrote] on Judaism and leaves no doubt as to the source of such monstrous beings as Mime and Alberich: "The first thing that strikes our ear as quite outlandish and unpleasant, in the Jew's production of voice sounds, is a creaking, squeaking, buzzing snuffle: add thereto an employment of words in a sense quite foreign to our nation's tongue, and an arbitrary twisting of the structure of our phrases—and this mode of speaking acquires at once the character of an intolerable mumbo-jumbo; so that when we hear this Jewish talk, our attention dwells on its repulsive how, rather than on any meaning of its intrinsic what."⁴⁶

If Wagner had a particular Jew in mind when he created Alberich it was most probably Meyer Amschel Rothschild, the patriarch of the banking family from the Frankfurt *Judengasse* who stole the Prince of Hesse-Kassel's gold and shipped it off to his son Nathan in London, where it became the foundation of the Rothschilds' fabulous fortune. If Alberich is

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Meyer Amschel Rothschild, then Nibelheim is the world of the Industrial Revolution created through financing provided by the Frankfurter *Juden-gasse* and/or the City of London, where the gold which is the patrimony of the German nation got forged into a financial system which enslaved all of mankind. Part of Wagner's myth in the *Ring cycle*, according to Adorno, was "his fantasy of [the Jews'] universal power."³⁷ Like Karl Marx, Wagner believed that "the wordly cult of the Jews" was "huckstering" and their "worldly god" money.⁴⁸ The challenge of the age of 1848 was emancipating itself from "huckstering and money, and thus from real and practical Judaism."⁴⁹ Or as Wagner put it, "To become a man at one with us, however, means firstly for the Jews as much as ceasing to be a Jew,"⁵⁰ something which Ludwig Boerne (born Lev Baruch) did when he turned his back on the same *Judengasse* that was the ancestral home of the Rothschilds.

Loge, the representative of the Enlightenment's truncated version of reason, tries to explain the power which turned essentially beneficent gold into the malevolent ring by claiming magic as its agent:

A rune-spell
makes a ring from the gold:
no one knows what it is,
yet the spell is easily cast
by him who forswears love's delights.⁵¹

So, it was "magic runes" which turned gold into the ring. No one knows that magic, but there is one who can pronounce those spells with ease, namely, the man who has renounced love. Once it becomes clear that Alberich is a Jew, two parallel interpretations of the renunciation of love emerge. The first, the Wagnerian, emphasizes the sexual nature of love. The second, the Christian interpretation, which Wagner appropriated for his last opera *Parsifal*, sees the Jew as renouncing love by rejecting Christ, the God whom St. John identifies with love, when he writes: "God is love, and he who abides in love, abides in God and God in him."

According to the second reading, the one which would appear in *Civiltà Cattolica* in 1890 as the officially sanctioned Catholic interpretation of the revolutionary trajectory of France which began in 1789, any nation which renounces Christ, the God who is love, and repudiates the laws which were made in accord with the Christian gospel to regulate property according to love, and which participated in the theft of church property will draw a curse down upon it and end up being ruled by Jews. Germany became Nibelheim when it went along with Napoleon's emancipation of the Jews. When the Prince of Hesse-Kassel handed his portion of das Rheingold over to Meyer Amschel Rothschild, who then handed it over to his son Nathan to spirit it off to London, he created the bondage to Jewish finance which, according to Marx and Engels and Wagner, brought about the revolution

of 1848 by way of reaction.

Flattered by Loge's attention, Alberich finally reveals the relationship between gold and the Ring and how he will use the Ring to bring about the downfall of the gods:

To create yet more wealth
and to hide away wealth
Nibelheim's night serves me well;
and yet with the hoard,
heaped up in the cave,
I shall then, I think, work wonders:
the whole of the world
I'll win with it as my own.⁵²

Alberich plans to use the ring to take over "the whole world." He is going to take the hoard which the dwarves have created for him in Nibelheim and perform miracles. When Loge, leading him further on, wonders how Alberich is going to do this, the dwarf bursts out in a rage that he is going to catch all of the gods with "a golden fist":

in my golden grasp
I'll capture all you gods!

The Jew Alberich is going to persuade the "gods," who symbolize the ruling class in every quondam Christian country in Europe, to renounce love just as he has renounced love:

As love has been forsworn by me,
so all that lives
shall also forswear it:
lured by gold,
you'll lust after gold alone.

Lured by gold, "Mit Golde geknirrt," the god-like aristocracy will be lured into financial bondage, just as the landed aristocracy in England was during the 19th century, by a combination of the gold standard and usury, which allowed the English ruling class to rule the world while at the same time falling into bondage to their Jewish creditors. Alberich stole the Rheingold and then weaponized it by creating the ring, which is to say a system of world-wide financial exploitation based on possession of gold which allowed the possessor of the ring to rule the world. Alberich's ring is another word for usury, capitalism, and banking, but most specifically it refers to the gold standard as promoted by Jews like the Rothschilds and the predatory nature of the economic system based on gold which got imposed on the world by the Bank of England during the roughly 30-year period following the fall of Napoleon and culminating in the Revolution of 1848.

No one has ever explained the essentially occult nature of the gold standard and its relationship to Capitalism, bondage, and loss of both faith

and love better than Wagner. The magical power of the gold standard derived from the fact that gold, because it was imperishable:

could be hoarded in uncertain times, and promptly regain the markets as soon as the skies cleared. A disc of metal that was a barter unit and means of saving at the same time. Because men would not trust other men, gold they resolved to call money: it allowed them to petrify wealth into a ware that transcended the bonds of the community, which they felt was always prone to collapse. They could bury coins in the yard.³³

The gold standard began after the Napoleonic wars with “a massive recoinage program that created standard gold sovereigns and circulating crowns and half-crowns, and eventually copper farthings in 1821,”³⁴ but it could not exert the full power of the magic it exhibited in Alberich’s hands until it got coupled with paper money, in a system which allowed the conquering English the ability to set the norms for every other nation’s currency:

Throughout the 1820s, small notes were issued by regional banks, which were finally restricted in 1826, while the Bank of England was allowed to set up regional branches. In 1833, however, Bank of England notes were made legal tender and redemption by other banks was discouraged. In 1844 the Bank Charter Act established that Bank of England notes, fully backed by gold, became the legal standard. According to the strict interpretation of the gold standard, this 1844 act marks the establishment of a full gold standard for British money.³⁵

The discovery of gold in California in 1848 led to an enormous increase in the world money supply:

The great gold discoveries in California, Australia and other places after 1848 . . . multiplied the means of payment available to the world economy and removed what many businessmen regarded as a crippling stringency, lowered interest rates and encouraged the expansion of credit. Within seven years, the world gold supply increased between six and sevenfold, and the amount of gold coinage issued by Britain, France and the United States multiplied from an average of 4.9 million pounds in 1848-9 to one of 28.1 million in each year between 1850 and 1856 gold . . . produced . . . an era of rising prices or moderate, though fluctuating, inflation. . . . The availability of bullion in large quantities helped establish that stable and reliable monetary standard based on the pound sterling (linked to a fixed gold parity) without which . . . international trade becomes more difficult, complex and unpredictable.³⁶

Wagner captures the world’s bewilderment at how the gold standard actually worked by constantly referring to the ring’s magical powers. To the world’s financial insiders, however, the gold standard “was erected upon an enormous fraud.”³⁷ The bankers who perpetrated this fraud did so by a number of magical tricks—“1) to make people accept the bank notes as if they were gold, 2) to possess the metal itself, 3) to hide it in vaults, and 4) to withdraw it gradually from circulation”—which made money “capable of

wielding an archtypal force, unlike any other.”⁵⁸

Under the gold standard, gold “disappeared from circulation.” It went underground, not back to the bottom of the Rhein where the Rhinemaidens could guard it, but into Nibelheim, which is to say, into “the underground cellars of reserve banks, which gave the economy their paper instead.”⁵⁹

The point of the gold standard as practiced by the Alberichs who ran the Bank of England “was to corner the supply of gold and monopolize the circulation of money.”⁶⁰ The Alberichs of the world could now make money coming and going. When they were flush with gold, they could increase the paper money supply by flooding a country, like the United States, which was wary of cheap English manufactures but clueless when it came to that country’s predatory financial instruments, with low interest credit, thus creating a boom economy:

The boom lasted until the earning capacity of the borrowers covered the interest; but when, owing to abundance, prices after a while began to decrease, this differential (rate of profit minus rate of interest) shrank rapidly. Suddenly the economy recalled that the money it had been given stemmed from debts. . . . When the producer could no longer pay interest, it was the end: the banks said “enough.” They recalled the loan, the concerns went bankrupt, workers worked no more, and the cash retreated in the canals of the Grid. [and what ensued was] The crisis, the misery, the strangulation of society.⁶¹

Since the bank still owned the gold, Nibelheim could re-start the same cycle afresh by issuing new paper after they had bought up all of the assets of their debtors at pennies on the dollar. Boom and bust cycles would follow each other in roughly ten-year intervals, but the net result of the ring’s concatenation of usury and the gold standard was the concentration of wealth into the hands of more and more unscrupulous people. By the time Wagner produced *Goetterdaemmerung*, the last opera of the Ring Cycle in 1876, Alberich’s prophecy had come true. His “golden fist” had conquered the world and all of the “gods” were within its grasp:

By the second half of the 19th century, under the famed “Gold Standard,” all industrialized powers had a currency expressed in gold—a mark, a franc, or a pound was decreed to be worth so many grams of gold, and notes were declared by law to be convertible into gold at the given ratio, called the parity.⁶²

The gold standard contradicted everything which Adam Smith had said about money, the economy, and labor. It was a throw-back to mercantilism of the crudest sort, imposed on the rest of the world by a country which had hypocritically said that mercantilism had been superseded by a new economic system based on labor (or the division of labor). Adam Smith’s *Wealth of Nations* was the exoteric explanation of Capitalism; the esoteric explanation which the Alberichs who staffed the British Empire learned in their Masonic Lodges was the gold standard. The reason this

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explanation remained hidden among initiates is that it was a predatory system which would inexorably and inevitably crash the economy because

When a country ran a deficit on her balance of payments . . . she had to settle the balance in gold with her trading partner. When a country lost gold, the "cover" of the central bank was accordingly diminished: she would thus have to restrict the amount of credit money in circulation in order to maintain a given workable ratio (of gold to bank money).⁶³

The gold standard begat the boom and bust cycle naturally. The insiders knew this, and because they knew it, they knew that they had to cash out at a certain point, even if they never knew exactly when. Those who wore Alberich's ring at places like the Bank of England could lure gold into their vaults simply by manipulating interest rates. When a country possessed an excess of gold, she could lower interest rates and expand liquidity. This led quite naturally to over-borrowing which eventually froze up the economy because of the inevitable, unrepayable usury burden which accompanied it. At that point, the Alberichs at the Bank of England who had the gold securely in their subterranean vaults called in their paper, crashed the economy, and since they still owned the gold on which the now worthless paper was based, the cycle started all over again. "These were the so-called 'rules' of the game of the pre-[World War I] Gold Standard."⁶⁴ By the time the rules were definitively established, those who made them knew how to manipulate them in an economically predatory manner, and it was the deliberate use of gold to manipulate boom and bust in the United States during the 1920s which led to the Great Depression, when the scheming blew up in the face of Benjamin Strong and Montagu Norman, the Alberichs who ran the Fed and the Bank of England respectively.

Tricked by Loge into demonstrating his power, Alberich turns himself first into a huge serpent and then into a toad, which Wotan and Loge then easily capture. Even after he finds himself in their power and even after Wotan demands all of his gold as ransom, Alberich remains calm because he knows that if he retains control of the ring he can get the gold back again. In an aside, Alberich tells the audience:

But if I can keep the ring for myself,
I can easily manage without the hoard:
for it's soon replenished
and splendidly fattened
by means of the ring's command.⁶⁵

Alberich can get it all back again, just as the Bank of England knows that it can draw all of the gold that went out in loans back from India and America by the simple manipulation of interest rates. Usury, in other words, ensures that the gold will end up back in Alberich's hands just as inexorably as it ensures that it will end up back in the vaults of the Bank of

England.

When, however Wotan demands the ring in addition to the gold hoard, Alberich feels that his very life is being threatened: "My life, but not the ring!"⁶⁶ Wotan then "seizes Alberich and tears the ring from his finger with terrible force,"⁶⁷ thus expropriating the expropriators, to use Marxist terminology. Shaw claims that the same thing has been happening throughout the history of the West:

This is the way of the world. In older times, when the Christian laborer was drained dry by the knightly spendthrift, and the spendthrift was drained by the Jewish usurer, Church and State, religion and law, seized the Jew and drained him as a Christian duty. When the forces of lovelessness and greed had built up our own sordid capitalist systems, driven by invisible proprietorship, robbing the poor, defacing the theater, and forcing themselves as a universal curse even on the generous and humane, then religion and law and intellect, which would never themselves have discovered such systems, their natural bent being towards welfare, economy, and life instead of towards corruption, waste and death, nevertheless did not scruple to seize by fraud and force these powers of evil on pretence of using them for good. And it inevitably happens that when the Church, the Law, and all the Talents have made common cause to rob the people, the Church is far more vitally harmed by that unfaithfulness to itself than its more mechanical confederates; so that finally they turn on their discredited ally and rob the church, with the cheerful cooperation of Loki, as in France and Italy for example.⁶⁸

But it never happened as systematically as the gold standard enabled. After expropriating the ring, Wotan now feels that it has elevated him to the position of mightiest lord of the mighty.

Now I hold that which exalts me,
the mightiest lord of the mighty!

And Alberich wonders if he has been set free, "Am I free now?" But when the magnitude of his loss sinks in, Alberich curses anyone who possesses the ring:

Just as it came to me through a curse,
so shall this ring be accursed in turn!
Just as its gold once endowed me
with might beyond measure,
so shall its spell now deal
death to whoever shall wear it!
No joyful man
shall ever have joy of it:
on no happy man
shall its bright gleam smile:
may he who owns it
be wracked by care,

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and he who does not
be ravaged by greed!
Each man shall covet
its acquisition,
but none shall enjoy
it to lasting gain;
its lord shall guard it without any profit,
and yet it shall draw down his bane upon him.⁶⁹

Spencer's translation of the line beginning "Ohne Wucher," "its lord shall guard it without any profit" ignores the fact that "Wucher" is the German word for usury. This part of Alberich's curse could also read, "Everyone will crave the ring's benefits, but no one will savor its fruits without usury. Even if his lord protects him, he will attract the assassin to his side."

The gist of Alberich's curse is that the Lord of the Ring will become the Ring's slave.

Doomed to die,
may the coward be fettered by fear;
as long as he lives,
let him pine away, languishing,
lord of the ring
as the slave of the ring:
till the stolen circlet
I hold in my hand once again! –
And so in direst need
the Nibelung
blesses his ring. –
Keep it now
and guard it well:
you'll not escape from my curse!

The ring would subsequently pass by violence from one hand to another, bringing woe inevitably to whoever possessed it. Fasolt would die at the hand of his brother giant Fafnir, who would turn himself into a dragon to keep it in his cursed possession. Wotan got off more unscathed than the Ring's subsequent owners because he, at Erda's request, relinquished it freely to ransom Freia, thereby guaranteeing the return of the golden apples she grew to ensure eternal youth.

That curse will perdure until the Ring is returned to the Rheindaughters, its rightful owners. "Give us the gold," the invisible Rheinmaidens call from the valley as Wotan and the gods pass over the rainbow bridge into Valhalla, "O give us the guileless gold back again!"⁷⁰ Unfortunately, the innocent state of nature symbolized by the Rheinmaidens is forever lost. The natural law, symbolized by Wotan's spear, which protects the contracts

which guarantee fidelity ("Keep your faith with contracts!";⁷¹ "My spear-shaft safeguards contracts."⁷²), was lost when Siegfried, Wagner's approximation of the Revolutionary Bakunin, broke that spear and unleashed the revolutionary era:

Having shattered Wotan's spear, Siegfried enters a world where all oaths are broken and all promises forgotten; where the moral law has lost its significance, and every attempt at transcendence leads sooner or later to disaster. This is our world—the world since the Enlightenment—and it is brilliantly dramatized in *Goetterdaemmerung*.⁷³

Capitalism's "creative destruction" undermined the moral order, which Wagner, because of his own sexual sins, ascribed to the nature of the universe. If Wagner had written the entire *Ring cycle* under the immediate inspiration of the Revolution of 1848, he would have written a better, which is to say, more consistent and comprehensible opera, but unfortunately he took the next 30 years to complete it, and during those 30 years he had the greater misfortune to fall under Schopenhauer's pessimistic influence. Shaw, his most perceptive critic, noticed this when he wrote: "When Wagner first sketched *Night Falls on the Gods* he was 35. When he finished the score for the first Bayreuth festival in 1876 he had turned 60. No wonder he had lost his old grip of it and left it behind him."⁷⁴

After wandering through the intellectual wilderness that German philosophy had become by the second half of the 19th century, Wagner tried to reimpose a Proudhonian-Marxist ending on the *Ring cycle* when he has Bruenhilde deliver a speech on the relationship between love and property before her self-immolation on Siegfried's funeral pyre: "My holiest wisdom's hoard," she says, "now I make known to the world. I believe not in property, nor money, nor godliness near hearth and high place, nor pomp and peerage, nor contract and custom, but in Love. Let that only prevail; and ye shall be blest in weal or woe."⁷⁵

In the final analysis, Wagner, like Marx, could never shake his fatal attraction to revolution. After a brilliant analysis of Capitalism's covert exploitation of the gold standard, whereby the Alberichs of the House of Rothschild and the Bank of England were able to rule the world, he can propose nothing more than the same remedy which failed in 1848, even if he now sees that revolution is invariably a form of self-immolation. Shaw claims that Bruenhilde's repudiations "still smack of Bakoonin [sic]; but the saviour is no longer the volition of the full-grown spirit of man, the Free-willer of Necessity, sword in hand but simply Love, and not even Shelleyan Love, but vehement sexual passion."⁷⁶

Wagner's fatal attraction to revolution in general, and sexual revolution in particular, turned what began in *Das Rheingold* as a brilliant analysis of capitalism into an "operatic anachronism"⁷⁷ by the time the final curtain

fell in *Twilight of the Gods*. Influenced by the revolutionary spirits which he imbibed behind the barricades of Dresden in 1849, Wagner, like Marx, enabled the rise of the very Alberichs he hated:

Bakoonin broke up, not Valhalla, but the International, which petered out in an undignified quarrel between him and Karl Marx. The Siegfrieds of 1848 were hopeless political failures, whereas the Wotans and Alberichs and Lokis were conspicuous political successes. Even the Mimes held their own as against Siegfried. With the exception of Ferdinand Lassalle, there was no revolutionary leader who was not an obvious Impossibleist in practical politics; and Lassalle got himself killed in a romantic and quite indefensible duel after wrecking his health in a titanic oratorical campaign which convinced him that the great majority of the working classes were not ready to join him, and that the minority who were ready did not understand him. The International, founded in 1864 by Karl Marx in London, and mistaken for several years by nervous newspapers for a red spectre was really only a turnip ghost.⁷⁸

By insisting on the revolutionary abolition of property, the family, morals, and the nation state, Wagner and Marx put the ring back on Alberich's finger and gave a new lease on life to Nibelheim, which would establish its branch office in the east, under Prussian auspices when Bismarck, a combination of Loge and Wotan, united Germany under the sign of the Enlightenment in 1871.

Endnotes

1 The beginning of this chapter is taken from my book *Dionysos Rising: The Birth of Cultural Revolution out of the Spirit of Music* (South Bend: Fidelity Press, 2012), pp. 7-13.

2 Martin Gregor-Dellin, *Richard Wagner: His Life, His Work, His Century*, trans. J. Maxwell Brownjohn (San Diego and New York: Harcourt Brace Jovanovich, 1980), p. 167.

3 Gregor-Dellin, p. 165.

4 Richard Wagner, *Mein Leben* (Munich: Paul List Verlag, 1963), p. 451. All translations mine.

5 Wagner, *Mein Leben*, p. 467.

6 Wagner, *Mein Leben*, p. 469.

7 Ibid.

8 Wagner, *Mein Leben*, p. 452.

9 Wagner, *Mein Leben*, p. 454.

10 Gregor-Dellin, p. 164.

11 Wagner, *Mein Leben*, p. 468.

12 Wagner, *Mein Leben*, p. 473.

13 Wagner, *Mein Leben*, p. 475.

Barren Metal

14 Gregor-Dellin, p. 179.

15 Ibid.

16 Richard Wagner, *Prose Works*. Trans. William Ashton Ellis, vol. I, *The Artwork of the Future* (New York: Broude Brothers, 1966), p. 24.

17 Roger Scruton, *Understanding Music: Philosophy and Interpretation* (London and New York: Continuum, 2009), p. 134.

18 Stewart Spencer, *Wagner's Ring of the Nibelung: A Companion* (New York: Thames and Hudson, 1993), p. 54.

19 Scruton, p. 134.

20 Ibid.

21 Ibid.

22 Scruton, p. 136.

23 Scruton, p. 147.

24 Spencer, Nibelungen all'neigt euch zum Alberich!/Ueberall weilt er nun,/ Euch zu bewachen;/Ruh' und Rast/Ist euch zerronnen, p. 90.

25 Spencer, Niemand sieht mich,/Wenn wer mich sucht;/Doch ueberall bin ich,/ Geborgen dem Blick. Ihm muesst ihr schaffen,/Wo nicht Ihr ihn schaut/Wo ihr nicht ihn gewaehrt/Seid seiner gewaertig:/Unterthan seid ihr ihm immer, pp. 89-90.

26 George Bernard Shaw, *The Perfect Wagnerite: A Commentary of the Niblung's Ring* (New York: Dover Publications, Inc., 1967), pp. 17-8.

27 Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*, (New York: Viking, 1998), Vol. II, p. 261.

28 Spencer, Mich Aermsten, ach!/Mich zwang er zum aergsten:/Ein Helmgeschmied/Hiess er mich schweissen;/Genau befahl er/Wie es zu fuegen. Fuer mich drum hueten/Woll't ich den Helm/Durch seinen Zauber/Alberichs Zwang mich entzieh'n/Vielleicht, ja vielleicht/Den Laestigen selbst ueberlisten/In meine Gewalt ihn zu werfen,/Den Ring him zu entreissen, p. 89.

29 Spencer, Mit arger List/Schuf sich Alberich/Aus Rheines Gold/Einen gelben Reif:/Seinem starken Zauber/Zittern wir staunend;/Ihm zwingt us alle,/ Der Nibelungen maechtiges Heer/Sorglose Schmiede/Schufen wir sonst wohl/ Schmuck uns'ren Weibern,/Wonnig Geschmied,/Niedlichen/Nibelungentand;/ Wir lachen lustig der Mueh./Nun zwingt uns der Schlimme/In Kluefte zu schluepfen,/Fuer ihn allein/Uns immer zu mueh'n/Durch des Ringes Gold/ Erraeth seine Gier,/Wo neuer Schimmer/In Schacten sich birgt:/da muessen wir spaehen/spueren und graben,/die Beute schmelzen/und schmieden den Guss,/ ohne Ruh' und Rast, den Herrn zu hauefen den Hort, pp. 91-2.

30 Scruton, p. 139.

31 Ibid.

32 Scruton, p. 147.

33 Ibid.

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- 34 Shaw, pp. 10-1.
- 35 Ibid.
- 36 Spencer, Nur wer der Minne/Macht versagt,/Nur wer der Liebe/Lust verjagt/
Nur der erzielet sich den Zauber/Zum Reif zu zwingen das Gold., p. 68.
- 37 Spencer, Wohl sicher sind wir/Und sorgenfrei:/Denn was nur lebt will lieben/
Meiden will keiner die Minne., p. 68.
- 38 Scruton, p. 136.
- 39 Ibid.
- 40 *The Marx-Engels Reader*, p. 596.
- 41 Shaw, p. 85.
- 42 Shaw, p. 26.
- 43 Shaw, p. 27.
- 44 Theodor Adorno, *In Search of Wagner* (London and New York: Verso, 1981),
p. 23.
- 45 Adorno, p. 23.
- 46 Adorno, p. 24.
- 47 Adorno, p. 25.
- 48 *The Marx-Engels Reader*, p. 48.
- 49 Ibid.
- 50 Adorno, p. 26.
- 51 Spencer, Ein Runenzauber/Zwingt das Gold zum Reif:/Keiner kennt ihn;/
Doch einer uebt ihn leicht,/Der sel'ger Lieb entsagt., p. 81.
- 52 Spencer, Schaetze zu schaffen/Und Schaetze zu Bergen/Nuetzt mir
Nibelheims Nacht/Doch mit dem Hort,/In der Hoehle gehauet,/Denk' ich dann
Wunder zu wirken:/Die ganze Welt/Gewinn' ich mit ihm mir zu eigen. Mit
gold'ner Faust/Euch Goettliche fang' ich mir alle! Wie ich der Liebe abgesagt,/
Alles was lebt/Soll ihr entsagen:/Mit Golde geknirrt/Nach Gold nur sollt ihr
noch gieren., p. 95.
- 53 Guido Giacomo Preparata, *Conjuring Hitler: How Britain and America made
the Third Reich* (London: Pluto Press, 2005), p. 140.
- 54 "Gold Standard," *Wikipedia*, http://en.wikipedia.org/wiki/Gold_standard
- 55 Ibid.
- 56 Eric Hobsbawm, *The Age of Capital 1848-1875* (London: Abacus, 1997), pp.
49-50.
- 57 Preparata, p. 140.
- 58 Preparata, p. 142.
- 59 Preparata, p. 143.
- 60 Preparata, p. 142.
- 61 Preparata, p. 141.
- 62 Preparata, p. 145.
- 63 Prepare, p. 146.
- 64 Ibid.

Barren Metal

- 65 Spencer, Doch behalt ich mir nur den Ring,/Des Hortes entrath' ich dann leicht:/Denn von neuem gewonnen/Und wonnig genaehrt/Ist er bald durch des Ringes Gebot., p. 101.
- 66 Spencer, Das Leben—doch nicht den Ring!, p. 102.
- 67 Spencer, p. 105.
- 68 Shaw, p. 20.
- 69 Spencer, Nun halt' ich was mich erhebt,/Der Maechtigen maechtigsten Herrn! Bin ich nun frei? Wie durch Fluch er mir gerieth,/Verflucht sei dieser Ring!/Gab sein Gold/Mir—Macht ohne Maass,/Nun zeug ein Zauber/Tod dem—der ihm traegt./Kein Froher soll/Seiner sich freu'n;/Keinem Gluecklichen lach/Sein lichter Glanz/Wer ihn besitzt/Den sehre die Sorge/und wer ihn nicht hat,/den nage der Neid!/Jeder giere
Nach seinem Gut,/Doch keiner genieesse/Mit Nutzen sein';/Ohne Wucher huet' ihn sein Herr,/Doch den Wuerger zieh' er ihm zu! Dem Tode verfallen,/Fess'le den Feigen die Furcht;/So lang' er lebt,/Sterb' er lechzend [languishing] dahin,/Des Ringes Herr/Als des Ringes Knecht:/Bis in meiner Hand/Den geraubten wieder ich halte!/So—signet/In hoechster Noth/Der Nibelung seinen Ring./Behalt' ihn nun,/Huete ihn wohl:/Meinem Fluch fliehst du nicht!, pp. 105-6.
- 70 Spencer, Gebt uns das Gold, O gebt uns das reine zurueck!, p. 117.
- 71 Spencer, Vertraegen halten true, p. 74.
- 72 Spencer, Vertraege schuetzt meines Speeres Schaft, p. 77.
- 73 Scruton, p. 160.
- 74 Shaw, p. 85.
- 75 Shaw, p. 83.
- 76 Shaw, p. 84.
- 77 Shaw, p. 87.
- 78 Shaw, pp. 87-8.

Chapter Seventy-Nine

The Jewish Problem in England

In 1852, 50 years after he had inherited Broadlands from his father the second Viscount, Palmerston was still in debt.¹ In discussing “the many and varied. . . reservoirs of credit on which so many aristocratic families were able to keep afloat from the Regency to the Victorian era,” Canandine mentions a number of sources, including insurance companies, but leaves out the one source which was causing the English aristocracy the most concern: namely, Jewish moneylenders. By the 1840s the Jewish Problem had arrived in England. Stated in its simplest terms, the Jewish Problem involved the inverse relationship between debt and political sovereignty.

Following their emancipation by Napoleon, the Jews enhanced the political power which they wielded as *Hofjuden* in Germany by lending money to land-rich but cash-poor aristocrats. No one was more active in this regard than the five descendants of Amschel Rothschild, who were flush with cash from German princes seeking a financial safe haven from Napoleon’s armies. And none of the Rothschilds made more money by making German ducats copulate via compound interest than Nathan, the scion of the Frankfurt *Judengasse* who landed in London just in time to finance England’s war against the French and the landed gentry’s orgy of mansion building which followed the English victory at Waterloo.

No one epitomized the seductive power of Jewish money and the loss of sovereignty that it entailed better than Nathan Rothschild in England. The banker Alexander Baring referred to him disdainfully as “the Jew.”² In disparaging the predatory tactics of his colleagues in the City, Baring claimed that “These gentlemen are working like Jews. How could we co-operate? Their principles are different. They are working on twenty transactions at the same time. . . with the only aim to do business. . . .”³ Cobbett had similar things to say about Nathan, who personified for him the shady financial dealings which characterized the City during the post-Napoleonic era.⁴

The same was true of all of Amschel Rothschild’s sons, no matter where they ended up. Shortly after Caroline von Humboldt had been introduced to Salomon Rothschild, he offered to lend her money, asking her “point blank,” to use Ferguson’s phrase, “whether he could be of any use to me in the manner of money, and said that his purse was at my disposal.”⁵

Wilhelm von Humboldt was both fascinated and repelled by Nathan. "He is quite crude and uneducated, but has a great deal of intelligence and a positive genius for money."⁷ Nathan seems to have come by his reputation for crudity honestly. The composer Louis Spohr recounted Nathan saying, "I understand nothing of music. This" –patting his pocket and making his money rattle and jingle— "is my music."⁸ Ferguson opines that:

The notion that an ill-educated Jew could behave this way in polite society and get away with it purely on account of his newly acquired and largely paper wealth, variously fascinated and appalled contemporaries, depending on their social position and philosophical attachment to the traditional hierarchical order.⁹

The debate about Jewish control of England's finances and, therefore, England began during the 1820s when Rothschild financial power became too big to ignore. When Nathan Rothschild's agent Herries was demoted in February 1828, Thomas Duncombe, the Whig MP from Hertford "trusted that the Duke of Wellington and right hon Secretary for the Home Department [Peel] would not allow the finances of this great country to be controlled any longer by a Jew."¹⁰

The fear that Jewish moneylenders were taking over England's financial affairs only intensified during the 1840s, when "hostility to wealth fused with hostility to Jews,"¹¹ and the Rothschilds became the epitome of the Jew who was taking over the country from behind the scenes. When the next generation of English Rothschilds acquired refined manners, the fears of the aristocrats increased because they began to fear that what Benjamin Disraeli had written in his 1844 *roman à clef* *Coningsby* had actually come to pass and "that the world" was in fact, "governed by very different personages from what it is imagined by those who are not behind the scenes."

It was governed by Jewish money-lenders like the Rothschilds. The landed aristocracy had become puppets of the Jews, who controlled them by lending them money. The Earl of Shaftesbury found it "strange, fearful, humiliating" that "the destinies of this nation are the sport of an infidel Jew."¹² The Duke of Cumberland predicted that "the whole of the riches of the country would by degrees come into the hands of the Jews."¹³ When Lionel Rothschild, Nathan's son and the model for Sidonia in Disraeli's novel *Coningsby*, announced that he intended to run for office in 1847, Thomas Carlyle fumed: "A Jew is bad, but what is a Sham-Jew, a Quack Jew? And how can a real Jew, by possibility, be a Senator, or even a Citizen of any country, except his own wretched Palestine, whither all his thought and steps and efforts tend?"¹⁴ The hue and cry against Jewish financial subversion of British national sovereignty continued for the rest of the 19th century, uniting the indebted aristocrat and the penurious worker in a common cause. In 1891 the Labour Leader denounced the Rothschilds as a:

blood-sucking crew [which] has been the main cause of untold mischief and

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misery in Europe during the present century, and has piled up its prodigious wealth chiefly through fomenting wars between States which ought never to have quarreled. Wherever there is trouble in Europe, wherever rumors of war circulate and men's minds are distraught with fear of change and calamity, you may be sure that a hook-nosed Rothschild is at his games somewhere near the region of the disturbance.¹⁵

Randolph Churchill was born in 1849, the last year of the Irish potato famine, and one year after the Great Chartist demonstration in England and the Revolution of 1848 on the continent, at Blenheim the ancestral home of the Marlborough family. The spectacular bankruptcies which would plague the landed aristocracy for the rest of the 19th century were only beginning when Randolph came into the world, but they would accelerate dramatically during his lifetime. In a classic expression of the inverse relationship between debt and political power, the Churchill family in 1874 was forced to sell four square miles of their property in Buckinghamshire to Baron Ferdinand de Rothschild along with the livestock on the Blenheim home farm for 220,000 pounds in order to pay off debt.¹⁶

The Churchill family provides an especially flamboyant example of moral decline among the landed aristocracy. Beginning with the First Duke of Marlborough, who betrayed James II and then turned on William of Orange,¹⁷ the Churchill family established a tradition of being "either unhappy or undistinguished or both" as well as "Profligate even by the standards of the late-18th and early 19th centuries" that spanned generations.¹⁸ Locked in fierce battle with Winston's father Randolph over the Irish question, Gladstone claimed in 1882 that: "there never was a Churchill from John of Marlborough down that had either morals or principles."¹⁹ It was a verdict that virtually the entire English ruling class shared until Winston's apotheosis after World War II. As late as 1940, when Winston was appointed Prime Minister, there was widespread concern in both Whitehall and Washington that he would jeopardize the entire Allied war effort because he was a notorious drunk.²⁰ By 1940 wretched excess had become a Churchill family tradition:

In every generation, among his closest relatives, there were too many debts, too much gambling, too much drinking. Even by the relatively lax standards of the Edwardian era or the inter-war years, there was an above-average amount of infidelity, divorce, erratic behavior, sexual scandal, social ostracism and court disfavor. Thus described, the Marlboroughs were a textbook case of a declining and degenerate ducal dynasty: Lord Randolph might have stepped straight from the pages of Trollope's *The Way We Live Now*, the ninth duke was a character of almost Proustian pitifulness, and the headline-stealing antics of Diana, Sarah, and Randolph might have been taken from a novel by Evelyn Waugh—with whom, appropriately enough, Randolph enjoyed a life-long love-hate relationship. This only reinforced the prevailing view that all the Churchills were unstable, unsound, and untrustworthy: utterly devoid, as Gladstone had damningly

observed, of either morals or principles.²¹

The trajectory was the same one we have already described as common to virtually the entire landed aristocracy in England: moral depravity leading to extravagance, extravagance leading to indebtedness, indebtedness leading to control by Jewish moneylenders, and control by Jewish moneylenders leading to the loss of property and the eclipse of political power.

Phase four of this decline began when Randolph was a child and his father, the Seventh Duke of Marlborough, had to sell off family estates in Wiltshire and Shropshire in 1862 and Buckinghamshire 12 years later. When Randolph's brother, Blandford, the eighth duke of Marlborough, whom Cannandine refers to as "one of the most disreputable men ever to have debased the highest rank in the British peerage,"²² succeeded to the title in 1883, the process of dissolution continued apace when he sold off the Blenheim art collection for 350,000 pounds. Seven years earlier, Blandford's adulterous affair with Lady Aylesford had become a public scandal. The affair continued in spite of the publicity, producing an illegitimate child in 1881 which led to his wife divorcing him shortly after he assumed the title.

In 1886, Blandford established another Churchill tradition by marrying a rich American by the name of Lillian Hammersley, an alliance "which enabled him to install electric light and central heating at Blenheim."²³ The ninth duke, Charles Richard John Spencer-Churchill carried on this tradition when he married Consuelo Vanderbilt for her money, which allowed the duke to restore the gardens and terraces at Blenheim. The flow of money from America was disrupted when the duke separated from his first wife and married Gladys Marie Deacon, a lapsed Catholic whom Cannandine describes as a "Bohemian adventuress."²⁴ Cannandine has similarly dismissive things to say about the ninth duke's politics, which he characterizes as "paranoid," "anti-Semitic," and "reactionary,"²⁵ with no appreciation of how the loss of land and prestige to Jewish creditors might have affected his state of mind.

Similarly, Cannandine sees his conversion to Catholicism in 1927 as a blot on the ninth duke's escutcheon comparable in gravity to the fact that: "Neither King Edward VII nor King George V would receive him at court, nor would they accept from him the Blenheim flag. . . ."²⁶ Winston Churchill rebuked the ninth duke's son when he had similarly negative things to say about his father's conversion, claiming that his father had "a strong strain of the spiritual and the mystic in his being."²⁷ It was "the need of contact with the sublime and supernatural of which he was profoundly conscious," Churchill continued, which:

Led him to the Church of Rome. He asked for sanctuary within that august and seemingly indestructible communion, against which his ancestor had warred with formidable strength. The shelter and protections were accorded, and the

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last years of his were lived in a religious calm which fortified him against the troubles of the world and the errors we all make traveling through it. . . .²⁸

Randolph Churchill was born into a world that was both aristocratic and impoverished, inheriting "a patrimony greatly lessened by extravagance" and, of course, by the debt and usury burden that necessarily accompanied it. Randolph managed to pass the debt and the extravagance on to his progeny, keeping afloat during the course of his short life by selling off property until he was able to marry a rich American heiress.²⁹ Cannandine claims that Randolph was even more notorious than his reprobate elder brother Blandford and has similarly unflattering things to say about Winston's mother Jennie, who is portrayed as "as spendthrift, wayward and irresponsible as her husband"³⁰ and, if possible, even more sexually promiscuous. In 1900, five years after Randolph's death, Jennie, after a long affair, married George Cornwallis-West, who was 20 years her junior and around the same age as her son Winston, behavior which "was generally regarded with derision, incredulity, and astonishment."³¹

Even after his marriage to Jennie, Randolph, like his elder brother, who had to sell the Blenheim art collection when he succeeded to the title, could only keep afloat during the last 20 years of his life by the ongoing sale of land, livestock, and art treasures.³² The insatiable demand for cash which the usury burden had laid on the Marlboroughs necessitated other measures as well, including "letting out his St. James's Square house at exorbitant rates . . . [and] renting out his guest-list to the socially ambitious tenant as well."³³

Debt was the infallible sign that morality was on the losing side of self-control's battle with self-indulgence. The debt problem was, at its most basic level, a moral problem which had developed over generations. As a child, Randolph had acquired a taste for high living through his association with the Rothschilds, Hirsches, Cohens, Wertheimers and Bischoffsheims, "who became and remained his close friends."³⁴ Randolph first made contact with this circle of wealthy Jews at the Reverend Damer's, who apologized to Randolph's mother for "the allegiance he has struck up with the Jews" by claiming that "there is really no one else in the neighborhood to visit."³⁵ In 1873 Randolph wrote to Jennie about how much he enjoyed staying at Aston Clinton, because: "Like all Jews' palaces it is a wonderful house for eating, every kind of food. I must confess I rather like that."³⁶ Because of his association with wealthy Jews as a child, Randolph felt that he could live as extravagantly as they did, without understanding that the he was on the wrong side of compound interest and they on the right side.

From childhood onward, Randolph had a problem with self-control which "manifested itself in erratic bouts of activity, often after long periods of indolence,"³⁷ a pattern of behavior which he manifested during his years

at Oxford. Randolph's native intelligence allowed him to cram at the last minute for his exams, which he passed with a high second in December 1870,³⁸ and that ability, in turn, allowed him to spend the rest of his time at Merton College in dissipation, which got out of hand during of his "well-publicized drinking episodes,"³⁹ when he was fined 10s. for assaulting a policeman and drunk and disorderly conduct. Instead of apologizing, Randolph charged the constable who arrested him with perjury, a case which he promptly lost when the charges against Constable Partridge got thrown out by the judge.⁴⁰

Like his brother, the eighth duke, and like his nephew, the ninth duke, Randolph married a rich American as his way of solving the problems which his extravagance and the debt which it entailed created. The correspondence surrounding his courtship is marred by hard-nosed financial haggling with his future father-in-law. In the end, the 50,000 pounds which he received as his wife's dowry along with an income of 2,000 pounds a year were no match "for a life-style of conspicuous and frivolous consumption" that included "ruinously heavy betting at Newmarket."⁴¹

It was in this state of chronic insolvency that Randolph began his erratic political career. Nature nowhere abhors a vacuum more than in the realm of politics, especially if the vacuum involves lack of money. In February 1883, after Blandford had succeeded to the title of eighth duke and set off a family feud by planning to sell the Blenheim paintings, Randolph succeeded in raising a 31,000 pound loan from the Scottish Widows Life Insurance Office,⁴² but within two years the money was all gone because neither he nor Lady Randolph, whose "pastimes were the most expensive possible," was capable of economizing.⁴³

In January 1876 Randolph had to borrow 5,000 pounds to make ends meet. He characterized the loan as "the last we can make on our present resources."⁴⁴ To make matters even worse, he took his brother Blandford's side in a scandal involving his mistress, Lady Aylesford, and her husband, who was now seeking a divorce. Those proceedings threatened to implicate the Prince of Wales and succeeded in getting the Churchills banned from Court. Trying to make the best of a bad situation, the Duke accepted the position of Lord Lieutenantcy of Ireland in 1876 and moved his family there in 1877. Perhaps in revenge at the way he had been treated at Court, the Duke then became a flaming advocate of Irish rights, something which would could have put Randolph at odds with the Rothschilds a few years down the road were it not for his financial situation.

The Rothschilds knew less about Ireland than the average absentee landlord. It was "*terra incognita*,"⁴⁵ a land where the Rothschilds had no economic interests, but from which emanated rumors of chronic mismanagement, "uncouth manners, rampant drunkenness and senseless violence."⁴⁶

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Ireland had a deeper meaning in the realm of capitalist ideology because of the moral claim which it exerted over the collective guilty conscience of England at the time. When famine broke out again in 1879, the Churchill family was in the forefront of organizing relief because it did not want a repeat of the notorious failure with which the Russell government had been saddled because of their inactivity during the Great Famine of 1847. Lord Randolph became involved in relief efforts early on, and by 1880 the Duchess had raised 51,000 pounds to pay for distribution of seed potatoes, food, fuel and clothing.⁴⁷ By the time the fund for relief of distress concluded its operations, the Duchess had raised 135,000 pounds for the Irish poor.⁴⁸

Ireland had become the bone in the throat of the British Empire, which could neither swallow it nor cough it up. Eventually, the issue was settled by armed insurrection during World War I, but the English attempts to solve the issue during the latter part of the 19th century were plagued by the philosophical incoherence which England had inherited from the Scottish Enlightenment. Ethics and economics, which should have been perceived as two branches of the same practical reason, were constantly at odds with each other. Those politicians, like Gladstone, who tried to bring a sense of justice to the Irish political situation were undercut by members of their own party who felt that moral behavior posed a threat to property, which is to say, the complete hegemony of the laissez faire ideology over public policy. The Whig reaction to the famine was proof, in certain circles at least, that there was no invisible hand and that moral action needed to trump economic laws. Principled English politicians, like Gladstone, who had learned that lesson and felt that the moral law had a role to play in foreign policy were determined not to let the same thing happen again, and were busy during the latter part of the 19th century trying to work out a *modus vivendi* with the Irish. This meant, of course, that those who were totally dedicated to the principles of laissez-faire saw Ireland as a threat to everything they stood for.

The Rothschilds fell squarely into this group. They were ardently Unionist; they supported free trade and opposed any form of Home Rule for the Irish because "proposals to improve the lot of Irish tenants awakened fears for the security of landed property in the minds of English landowners like the Rothschilds."⁴⁹ Ireland loomed large in Natty Rothschild's mind, even though he had no direct economic interests there, for two reasons:

Not only did attempts to strengthen the position of Irish tenants relative to their landlords seem to threaten the rights of all property-owners [who had mortgaged their estates to Jews like the Rothschilds]; the idea of giving Ireland "Home Rule"—that is, some form of devolved legislature and government—also seemed to threaten the integrity of the United Kingdom and to imply a general decentralization of power throughout the empire. It was this dual significance of the Irish question, which brought together such improbably political allies as

the "Young Whig" Natty de Rothschild, the "Tory Democrat" Lord Randolph Churchill and the Radical Liberal Joseph Chamberlain, thereby shattering Gladstonian Liberalism and recasting post-Disraeli Conservatism.⁵⁰

In 1880, Natty voted against Gladstone's Irish Land Bill because its provision to "compensate tenants who had been ejected by landlords for non-payment of rent" infringed upon "the sanctity of contracts"⁵¹ and was tantamount to "confiscation." In spite of the Churchill family's sympathies for the plight of the Irish, Randolph got dragooned into the Rothschild's anti-Gladstone, anti-Irish campaign, which earned him Gladstone's condemnation as an unprincipled young blackguard.⁵²

With virtually unlimited amounts of money at his disposal, Natty might have succeeded in replacing Gladstone with Randolph Churchill so that they could "conduct the business of Empire in great measure together"⁵³ according to laissez-faire principles, but something unforeseen intervened which made any effective collaboration in the future impossible. Randolph's health had broken down as the result of a mysterious illness which caused him to disappear completely from public life from March to October 1882. At the age of 33, Randolph had contracted syphilis, a disease for which there was treatment (which often made the disease worse) but no cure. Syphilis would eventually lead to his death due to General Paralysis of the Insane at the age of 45. In the interim, his political career became more and more truculent and erratic, probably as a result of the psychic complications which invariably accompanied syphilis when it moved to the brain.

The Churchills tried to keep the source of Randolph's malady a secret, but his increasingly erratic public behavior, as well as the physical signs that he was being treated for the disease, became too obvious to ignore. By 1885 Randolph's "incurable disease had now taken firm hold"⁵⁴ and he was referred to Thomas Buzzard, a specialist in venereal diseases, who prescribed, according to the medical custom of the day, potassium iodide and mercury, which poisoned the patient with toxic heavy metals that turned his skin dark, diminished his hearing, and turned his voice hoarse, symptoms which were "all repeatedly noted by Churchill's friends from the mid-'80s."⁵⁵ Randolph's wife claimed in a letter to her sister that "the General Public and even Society" did not know the truth, but this seems unlikely, and it seems equally unlikely that rumors of the sort that his dramatically altered appearance engendered would enhance his credit rating, and that fact made him even more dependent on the Rothschilds than before.

At this dangerously low point in his career, Randolph's "associations with the world of high finance" as well as his association with "the Rothschilds and their circle loomed larger and larger in his private and public life."⁵⁶ Randolph reciprocated by demonstrating an aggressive philo-Sem-

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itism, as when he “resigned from the St. Stephen’s Club, with maximum publicity, because they blackballed his friend Wertheimer.”⁵⁷

Touching as gestures like this must have been to his Jewish friends, they were not enough to ensure the cash flow he needed to fuel his extravagant lifestyle, which now included gambling losses from trips to Monte Carlo.⁵⁸ Natty’s financial assistance in Randolph’s hour of financial need, however, came with a price. The Jews who were supporting Randolph’s syphilitic fantasies and the extravagant lifestyle that went along with them needed something more tangible than public gestures. Eventually, Rothschild was willing to write off close to 70,000 pounds in bad debt because he needed a friend in high places who would share Cabinet secrets that could be turned into hard financial gains.

Plagued by a combination of debt and disease which rendered him unworthy of credit from insurance companies, Randolph started plugging the Rothschilds as just as worthy of trust when it came to imperial financial matters like floating loans to Egypt as the non-Jewish Baring family. “I should like to point out,” Randolph told the House of Commons:

That there literally would be no difference whatever in sending out two members of the house of Rothschild to sending out two members of the house of Baring. The two are almost equal in greatness and in their great pecuniary interest in the East; and it stands to reason that if Her Majesty’s Government had proposed—supposing a member of the house of Rothschilds, by circumstances and his public position, fitted to undertake the task—to send out such a member, there would have been a great cry of displeasure from the House of Commons and the country. But there would have no difference between the position of the Rothschilds and Baring. . . .⁵⁹

With support like this, the Rothschilds “benefited directly from the occupation of Egypt,”⁶⁰ and that in turn cemented the connection between Jewish finance, the gold standard, usury, and the British Navy which had informed the Don Pacifico affair under Palmerston and would go on to pave the way for the fateful confrontation with Germany at the beginning of the next century.

Support like this did not go unnoticed. Brett told Hartigan in 1886 that “Churchill and Natty seem[ed] to conduct the business of the Empire in great measure together. . . .”⁶¹ Hamilton told Roseberry that Churchill had gotten into trouble because of his “excessive intimacy” with “a certain financial house,”⁶² an unmistakable reference to the Rothschilds. Similarly, Lady Salisbury told Herbert von Bismarck that Randolph “communicated everything to Natty Rothschild” and that when “people did not give great financial houses political news for nothing.”⁶³ Ferguson finds the evidence of financial collusion “compelling, especially in view of the precariousness of Churchill’s personal finances,”⁶⁴ and most especially in view of how

much Randolph owed Natty when he died.⁶⁵

The Rothschilds profited further when Randolph became Secretary of State for India during the summer of 1885. After getting the appointment, Churchill lost no time in establishing precisely the kind of relationship with Natty and his brothers in relation to India which he had earlier accused Gladstone's government of having with the Barings in relation to Egypt. While planning the issue of a loan for the Indian Midland Railway, Churchill specifically told the Viceroy, Lord Dufferin, "If I am in office next year . . . when the loan is brought out, I shall fight a great battle against [Bertram] Currie to place it in the hands of the Rothschilds, whose financial knowledge is as great as that of the Bank of England is small, and whose clientele is enormous."⁶⁶

Randolph and Natty worked hand in glove in India. In fact, financial opportunity for the Rothschilds followed every expansion of the British Empire. Three years after Randolph announced the annexation of Burma on New Year's Day 1886, the face value of the shares which the Rothschilds had issued on the Burma Ruby Mines reached a 300 percent premium.⁶⁷ During the same period of time, the Rothschilds issued Indian railway shares worth 6.4 million pounds.⁶⁸

With the prospect of financial returns like this accruing from every expansion of the empire, the Rothschilds became ardent imperialists. When the Mahdi, provoked by "Chinese" Gordon rose in rebellion in the Sudan, "the Rothschilds encouraged British intervention."⁶⁹ British control of Egypt was good news for the Rothschilds because "Egyptian credit obviously would benefit should England become jointly liable for Egypt's external obligations."⁷⁰

Nor, given the role that the Rothschilds played in imperial finance, should it come as a surprise that the British Empire would become an essentially Jewish enterprise over the course of the 19th century. The Churchill family epitomized this transformation. There were strings attached to every loan, whether it was to impecunious landed aristocrats or to newly conquered countries. When Natty agreed to extend a short-term loan to Egypt to prevent default and, therefore, the loss of bond holders' money, he asked Granville, "what will Gov't do to help secure this debt?"⁷¹ The answer, thanks to Jewish-funded politicians like Randolph was simple: "after 1844 all Egyptian bond issues were effectively underwritten by Britain." As a result, between 1885 and 1893, the London, Paris and Frankfurt houses were jointly responsible for four major Egyptian bond issues worth nearly 50 million pounds.⁷²

By the end of the 19th century, the British Empire had become one huge, Jewish usury machine, administered by impecunious, extravagant, perennially indebted, morally depraved agents like Randolph Churchill. The

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more money they lent, the more leverage the Rothschilds had over public policy: "Roseberry, Randolph Churchill and Arthur Balfour . . . were regular guests at the Rothschild country houses (especially Tring, Waddesdon, and Halton). It was in this milieu that many of the most important decisions of the period were taken,"⁷³ and the politicians who smoothed the way for these decisions profited from them financially, as when Roseberry took Ferdinand Rothschild's hint in November 1878: "If you have a few thousand pounds (from 9 – 10) you might invest them in the new . . . Egyptian loan which the House brings out next week."⁷⁴

The more leverage they gained over policy, through impecunious politicians like the Churchills, the more money they lent, and the more money they lent, the more money they made to pay off the debts of perennially impecunious politicians like Randolph and Winston Churchill. Martin Gilbert shrouds the whole issue in mystery when he has Churchill's long-time friend General Sir Edward Louis Spears confide: "Even Winston had a fault. He was too fond of Jews"⁷⁵ by depriving the admission of its financial context. Both Randolph and Winston were "fond of Jews" because of the financial benefits which accrued from that relationship. When Aga Khan claimed in 1940 that "for years" Winston "had been in the pay of the Jews and Lord Beaverbrook,"⁷⁶ the mystery in which Gilbert shrouded the relationship disappeared.

In December of 1886, Randolph surprised even those who had become accustomed to his normally erratic behavior by resigning as chancellor of the exchequer, dashing Natty's hopes of creating a new, liberal political coalition. Natty attributed the resignation to a "freak of temper,"⁷⁷ perhaps brought on by syphilis encroaching further into Randolph's brain. Randolph, ever the gambler, claimed that the resignation failed to achieve its desired political effect because of "a simple miscalculation."

Once out of office, Randolph began to borrow increasingly large sums of money from the Rothschilds, money which would reach the staggering sum of almost 67,000 pounds by his death. By 1888 it was clear to Randolph's peers that: "R. Churchill turns to N. Rothschild for everything . . . but Rothschild, who is RC's chief mentor is giving RC up as a hopeless politician." Ferguson claims that "Natty's bankrolling of Churchill after 1886 was primarily an act of friendship as syphilis inexorably took its toll; for politically and financially he was now more a liability than an asset."⁷⁸

The same cannot be said, however, about Randolph's son Winston. Ferguson gets it backward when he claims that "it was less calculation than kindness" which prompted the Rothschilds "to take an interest in the career of his ambitious son, though no doubt they were gratified when young Winston opposed the Aliens Bill in 1904 as Liberal MP for Manchester."⁷⁹ Kindness to Randolph did not exclude calculation about the financial ben-

efits which might accrue to the Rothschilds if Winston followed in his father's footsteps and became their agent because as Wilfred Scawen pointed out in 1903, "In mind and manner" Winston was "a strange replica of his father, with all his father's suddenness and assurance and I should say more than his father's ability."⁸⁰

Endnotes

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Chapter Eighty

Bishop von Ketteler and the Worker Question

Unlike Richard Wagner, who escaped to Switzerland with the help of a false passport, Mikhail Bakunin was taken prisoner during the retreat from Dresden and twice sentenced to death, first by a Saxon and then by an Austrian court-martial. Both sentences were commuted to life at hard labor, but that sentence too was commuted when Bakunin was extradited to Russia and imprisoned in the fortress of St. Peter and Paul in St. Petersburg.¹ In 1857 Bakunin was sent to Siberia and, incredibly, escaped via Japan and America to London just as The International Working Men's Association was being founded at a large meeting in St. Martin's Hall, London, on the 28th of September, 1864.

Shortly after the January Uprising in Poland in 1863, workers from France and England met to discuss a closer relationship. After Henri Tolain and other representatives of the French workers attended a meeting at St. James Hall in London in July 1863 in honor of the Polish uprising, discussions arose about the need for international workers' organization which would prevent the importation of foreign workers as strike breakers. Those discussions eventuated in the September 28 meeting at St. Martin's Hall, at which Professor Edward Spencer Beesly attacked governments' hostile attitude toward the workers movement as well as their flagrant violation of international law and advocated "a union of the workers of the world for the realisation of justice on earth."²

The timing may have been perfect but the internal machinations of the socialist movement thwarted any timing, no matter how perfect. During Bakunin's incarceration, an article which appeared in the *Morning Advertiser* claimed that he was an agent of the Russian government and that he was not in prison.³ Karl Marx was convinced of its veracity and repeated it in an article which also appeared in the English press. While in London, Bakunin stayed with the Russian revolutionary Alexander Herzen, who seems to have had an interest in perpetuating the rift and kept Bakunin from any contact with Marx. In 1866 Bakunin, who spent his time with Herzen translating the *Communist Manifesto* into Russian, broke with Herzen "for wanting a social transformation without a political one and for being prepared to forgive the State everything provided it left the Russian village community intact"⁴ and reconciled with Marx. This recon-

ciliation wouldn't last long, and it was just the beginning of a long line of squabbles which would eventually lead to the collapse of the First International ten years later.

In Germany, meanwhile, an independent labor party had come into existence, thanks mainly to the activities, not of Marx and Engels, but of another communist, Ferdinand Lassalle.⁵ Lassalle (1825-1864) was a Jew born into the family of a wealthy merchant from Breslau, now Wroclaw. He studied philosophy and literature at various universities and during the 1850s and early 1860s was in regular contact with Marx, but their cordiality was undermined by Marx's contempt, which seems to have been at least partially motivated by racial considerations. In correspondence with Engels, Marx referred to Lassalle as the Jewish nigger. Referring to his dark complexion and coarse hair, Marx claimed that Lassalle was "descendant from the negroes who joined in the flight of Moses from Egypt (unless his mother or grandmother on the father's side was crossed with a nigger)". Marx also criticized Lassalle for his "niggerlike" importunity, although it was Marx who importuned Lassalle for a 30 pound loan.⁶

Lassalle was a member of the Communist League, but he was considerably less dogmatic in this approach to the labor issue. The fact that he was not dogmatically committed to either internationalism or revolution eventually alienated him from Marx and Engels but allowed him to organize German workers more effectively on a national basis. On May 23, 1863, two months before the coalition of French and English workers' first exploratory meetings in London which led to the creation of the First International a year later, Lassalle created the Allgemeiner Deutscher Arbeiterverein or General German Workers' Association. Because ADAV was national in scope, it immediately alienated Marx and Engels, whose followers in Germany refused to join it. Lassalle became its first president, an office which he held until his untimely death on August 31, 1864. Lassalle's pragmatism can be seen in the German Labor Party's goals, which eschewed Marxian revolution in favor of equal, universal, and direct suffrage attained by peaceful and legal means.

During the summer of 1864, Lassalle met a young woman by the name of Helene von Doenniges, who agreed to marry him, until her father, a Bavarian diplomat, objected and persuaded her to marry a Wallachian count by the name of Bajor von Racowitza. Lassalle challenged the count to a duel, which was carried out on the morning of August 28, 1864. The wound which Lassalle received in the duel led to his death three days later. Lassalle's legacy was more in political organization than in the realm of ideas. The ADAV, which had only 4,610 member at the time of Lassalle's death would become the German Social Democratic Party in 1875, which exists to this day.⁷

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The main idea Lassalle left behind was the "Iron law of wages," a phrase which Lassalle attached to the idea, first posited by David Ricardo that "the average wage of labor can never rise above what is necessary for the worker's bare subsistence."⁸ Lassalle's pragmatism also allowed him to talk with figures across the entire political spectrum in Germany, including Bismarck, who eventually implemented Lassalle's ideas on universal suffrage and censorship, as well as Bishop Wilhelm Emmanuel von Ketteler, ordinary of the diocese of Mainz, who corresponded with Lassalle while working on his book *Die Arbeiterfrage und das Christentum*, a book which was published in the same year that Lassalle died.

Ketteler was born in 1811 into an aristocratic family in the traditionally Catholic state of Westphalia, then under Prussian control. After a year in the military, Ketteler entered the Prussian civil service as a government trainee in Muenster in 1835.⁹ Ketteler's legal training combined with his aristocratic heritage gave him a hands-on attitude toward the relationship between Church and state in post-Revolutionary Europe. It allowed him to present a critique of the contemporary situation in general and the labor issue in particular which combined fidelity to basic ethical principles with realistic organizational thinking.

Ketteler's fidelity to principle manifested itself in the fateful year of 1837, which turned out to be a turning point in his life. In 1837, the Archbishop of Cologne, Clemens August Freiherr von Droste zu Vischering was arrested by the Prussian government, because of his refusal to go along with government regulations concerning mixed marriages between Protestants and Catholics. This led Ketteler to leave government service in 1838 in protest. After telling his brother Wilderich that he had no desire to serve a state which demanded the sacrifice of his conscience, he spent the next three years discerning whether he had a vocation to the priesthood. Ketteler studied theology from 1841 to 1843 in Eichstaett and Munich, and after studying pastoral theology in the seminary in Muenster, he was ordained a priest there in 1844. In his pastoral activity as chaplain and later as pastor Ketteler showed a religiously rooted determination to address the charitable and social questions of his age.¹⁰

Even though he was to come to many of the same conclusions as socialists like Lassalle, Ketteler's views were diametrically opposed to the utopian dogmatism of the Marxists. Yet unlike many of his Catholic *confrères* he was disinclined to throw the worker baby out with the revolutionary bathwater. Eventually Ketteler's principles would find their way into Pope Leo XIII's encyclical *Rerum Novarum* as solutions to the worker question. Leo XIII referred to Ketteler in his homage to the Bishop of Mainz as his "*grand predecesseur*."¹¹

Ketteler's engagement with the social issues of his age got him conse-

crated Bishop of Mainz in 1850 and earned him the title of "Worker Bishop," even though the labor issue was a relatively new phenomenon in Germany, where it lacked both the depth and pathology it had in a more industrialized and proletarianized country like England. One sign of Ketteler's willingness to study all sides of an issue without prejudice was his now famous correspondence with Ferdinand Lassalle during the summer of 1864 on the "Iron Law of Wages," the gist of which he incorporated into his book *Die Arbeiterfrage und das Christentum*.

By the time Ketteler wrote his book, the situation among the working classes had become too desperate to ignore, and the best indication of just how desperate it was could be gleaned from the statistics documenting the high morality rate among the working classes in both England and Germany.¹² Among the middle classes in England, the average life expectancy was 35 to 44 years. Among the working classes, however, it was 15 to 19 years. In Muelhausen in Alsace, of 100 factory owners and merchants only 32 reached the age of 50, while of 100 weavers only 8 reached the age of 50 and of 100 spinners only 3 reached the age of 50. In manufacturing cities in England before the onset of the industrial revolution the average life expectancy was 31 $\frac{2}{3}$ years. After the introduction of factory work, it sank to 19 years.¹³ In Germany things weren't as bad as in England, but they were far from good. The cigar makers of Berlin had an average life expectancy of 30 years, while in England the average life expectancy of this group had already sunk to 15 years of age.

Following Lassalle, Ketteler claimed that the cause of this deplorable state of affairs could be traced to the fact that work had been turned into a commodity. Just as the price of a commodity is determined solely according to supply and demand, the same is true of wages for labor. Just as companies subjected to market forces end up selling their wares below production costs, so the laborer, who is subjected to the same market forces ends up working for a starvation wage.¹⁴

The employers, according to Ketteler, stand in the labor market and ask: Who will do this work for the lowest pay? And the workers compete with each other to be lowest paid according to the measure of their necessity. Then comes that terrible point where this human commodity is offered at a price below its production cost.¹⁵ The end of this trajectory is ruin, first of labor and then, since an economy without labor cannot exist, ruin of the economy as well.

Ketteler used Lassalle's "Iron law of wages" to explain the plight of the working man. The worker's wage is a commodity, whose price is determined daily by the interplay of supply and demand; the axis around which it revolves is physical necessity. If demand is higher than supply, it rises above this axis; if the supply is greater than demand, it falls below

it. The fall of wages cannot resist this mechanical-mathematical motion, which means that the most extreme necessity can't be covered by the price of labor, leading to slow starvation of the working class and working class families.¹⁶ According to Ketteler:

No more illusion are possible now; the entire material existence of the entire working class, which is to say the overwhelming majority of the population of the modern state as well as the existence of their families, the daily question of bread for man, woman and child is a function of the market and commodity prices. I don't know of anything more lamentable than this fact. What feelings must this evoke in these poor people whose entire existence, including everything they need and love, is dependent on the coincidence of market prices. That is the slave market of liberal Europe, made to order according to the pattern set by our humane, enlightened, antichristian Liberalism and Freemasonry.¹⁷

Von Ketteler and Engels agree that it wasn't always this way. The situation came about as a result of the French Revolution:

this volatility in the lives of the entire working class, according to which the worker is dependent on a daily wage for his entire existence, and according to which the daily wage however has become a commodity, whose price is daily determined through the working of supply and demand, and it is almost always determined according to the absolute minimal amount necessary to keep the worker alive and that it often sinks below that level—all of this was totally alien in the past and first became widespread following the rearrangement of political arrangements which came into being after the [French] Revolution.¹⁸

There are two reasons for this state of affairs: free trade and competition. One is a function of the other. Competition is brought to its highest degree by the removal of all natural and artificial obstacles, especially by the removal of the barriers which hinder commercial activity.¹⁹ General free trade, however, is nothing more than the initiation of the highest form of competition, and the highest form of competition drives the price of commodities down to the most extreme margin of the necessary production costs. When products from all over the world can end up in one market, the cheapest commodities of the same quality win the battle, and every other producer is forced to the wall or required to sell at the same price.²⁰

The equivalent of the removal of all barriers to free trade in commodities is found in the removal of all barriers to competition for the working class. Total freedom in the labor market will lead to general competition among the workers with the same mathematical necessity that leads two times two to equal four. The highest degree of general competition must with the same necessity drive the workers' wages down to the lowest possible level.²¹

The first reason for the workers' situation is generally accepted *laissez faire* freedom of trade. It is impossible to deny this. in fact:

It is important to repeat this fact because the political parties try to suppress it. It is worth repeating at this point because the parties that cajole the people for their votes suppress this fact. This is especially true of the Liberal Party, which prefers to draw its support from the Masonic lodges, from the representatives of big capital, from the rationalist professoriate and the run-of-the-mill literati, which feast at the tables of the rich and in order to earn their keep have to write and speak for their rich patrons on a daily basis, but it is also true of the "national union" and the "progressive party" as well as the radical party, which distinguishes itself from the liberal party by a certain measure of honesty about the consequences of this policy. Both are united in their agreement that freedom of trade is a premise which can no longer be disputed.²²

Ketteler takes the debate over economics and re-situates squarely within the purview of the moral law, whose authority comes from God. Ketteler attacks both the position of classical economics as proposed by Smith in his *Theory of Moral Sentiments* and the position of the French Revolutionaries, who claimed that authority comes from the will of the people. Since authority comes from God, it is unspeakably ridiculous to want to find a surrogate for this authority in the will of the people:²³

This authority . . . can be abused in service to egotism and can bring the affairs of men on this earth to the point of complete ruination. At this point you can be sure that an equally abused understanding of freedom will make its entrance on the scene with a predictability similar to natural necessity. Freedom also has at its root an ineradicable divine idea as its basis, but it too, put into human use, is unspeakably abused as well. The form which the abuse of freedom takes is disobedience, and rage against just laws, and legitimate authority. In Christendom this is a sin. Freedom too can be abused to such an extreme degree that it leads to general ruin, at which point it calls for its opposite with a certain necessity.²⁴

The moral law, in other words, supersedes the Iron Law of Wages. Anyone who works for another man and who needs to earn a living from that labor has a moral right to a secure continued existence as well as protection from the threat to his daily existence which competition poses.²⁵

Why should the worker be put into a situation where he wonders what would happen if tomorrow I were underbid by a group of laborers from some remote region who are hungrier than I am, so that my wife and children and I would starve as a result? The rich capitalist has a protection for his business in his capital which is a thousand times more powerful than what the worker has. When it comes to the ability of the worker to sell his labor, freedom is a cruel hoax because lacking the resources which capital and land provide to the upper classes, and deprived of the protection for labor that unions provide by the ongoing campaign of demonization in the press, the worker stands naked and unprotected against the forces which Capitalism has unleashed to destroy him.²⁶

This is not to say that the history of protecting labor that accompanied

the development of the unions or the closed shop [*Zunftzwang*] was without its problems. The fact that authority can be abused doesn't mean that authority should be abolished. The closed shop was often put at the service of laziness and selfishness, which made commodities unnecessarily more expensive and violated the consumer's right to a quality product. The relationship between the closed shop and free trade is similar to the relationship between Authority and Freedom. The closed shop with its abuses and calcified selfishness brought about the public outcry for free trade.²⁷

Liberalism is antithetical to any authentic social order because it is nothing more than a methodical pulverization of the entire human race into a mass of disconnected individuals, or into equal particles of human dust, which the economic winds can distribute over the entire earth, this way and that. It is as erroneous as its intellectual foundation. Human beings are not numbers which all have the same value.²⁸

English Liberalism contradicts both the German spirit and the social nature of man, both of which are based on collaboration, not self-help.²⁹ The German alternative to English individualism is "*Genossenschaft*" or solidarity. The spirit of "*Genossenschaft*" is not new, but it stands in direct contradiction to the essence of English liberalism. Everything that the German Spirit has brought to light in the various areas of human existence came into existence via collaborative effort.

A significant part of that collaborative effort involved the guilds.³⁰ According to a law of nature, men must bind themselves together if they want to reach the destined end and if they want to satisfy their needs. The German principle of solidarity springs from an entirely different world and contradicts the system of Mancunian Liberalism, which wants to overturn that world. The more the Liberal system pursues its own ends, the more it leads to further contradictions.³¹ The principles of the Liberal Party are radically Jewish because they necessarily must progress to the dissolution of the national union and must proceed to the creation of a cosmopolitan new world order, in which every community in Germany has to grant to the alien the same rights that the native born German enjoys.³²

After exposing the contradictions inherent to the system of Liberalism, Ketteler claims that the answer to the worker question can only be found in Christianity because it was Christianity, after the collapse of the ancient world, which discovered the true meaning of labor derived from Christ's redemption of the human race.³³ The only reason that the European nations can conceive of a worker question is because of Christianity's rehabilitation of man. Without that rehabilitation, labor has only instrumental value of the sort it had in antiquity, not intrinsic value. The Greeks granted the full portion of human dignity only to the free Greek and the Roman only to the Roman citizen, to the *Civis Romanus*. The slave was treated like an animal

and not like a human being. Christianity gave human dignity back to large segments of the human race. The spirit of Christianity turned the slaves who worked the farms into our rural population of landed farmers and the slaves in the cities into what is now the middle class.³⁴ During the pagan era, labor was the business of slaves, and without doubt the entire working class would end up in exactly the same situation again if the world were restructured according to the principles of Liberalism.³⁵

Work was the business of slaves among the Germans as well. Ketteler claims that his Germanic forbears held work in contempt. Their work was war, hunting, and otherwise lazy lying about or taking part in games and drinking. Even agriculture, which became the defining mark of German culture, was held in contempt by the pagan Germans. Slaves and women took care of the farm work.³⁶

According to Ketteler, the same antichristian *Zeitgeist* which haunted pagan antiquity was in the process of resurrecting the old slavery in a new form, with the help of atheist professors and scientists who are promoting the evolution of man from matter. This new ideology results in the hardening of the hearts of a man against his brother. If we're all just animals and plants anyway, what is to prevent us from slaughtering our fellow man in much the same way that we slaughter animals? And the new slavery, now backed up by this mean-spirited materialism, threatens to become crueler and harsher than the old slavery.³⁷

Ketteler blamed the new slavery of capitalism on the scientific materialism which got a firm hold on the English mind during the late 17th century:

On February 7, 1249, when the Teutonic Knights signed a peace treaty with the newly converted Prussians, the papal legate spoke these noble words, "These new converts need to be taught that all men are equal, insofar as they remain free from sin, and that sin alone brings misery and makes men slaves." The new materialistic science seeks to deprive the majority of the human race of this insight by making men into animals; it flatters itself by calling this the highest form of enlightenment, but it leads inexorably back to a situation in which men are treated like animals.³⁸ The full force of this development has fallen upon the shoulders of the working class. It is once again the task of Christendom to liberate the world from this form of slavery.

Ketteler then examines the proposals of both the liberals and the socialists then current in Germany and finds them both wanting:

We can best summarize our position by saying that Lassalle [the socialist] is right when he attacks Schulze-Delitzsch [the representative of free trade, classical Liberalism], and Schulze-Delitzsch is right when he attacks Lassalle. Both are right in their critique of the other. But both are wrong in the solution they propose to better the situation of the working man. Both are right when they negate, but both are wrong when they affirm.³⁹

Any time the liberals propose some type of social program, they end

in contradicting their own principles because the essence of capitalist liberal individualism and the net result of the implementation of its economic system is the reduction of the entire social order to a pulverized mass of individuals. So when Schulze-Delitzsch proposes social programs to ameliorate the effects of capitalism, he is in effect contradicting himself. If the system leads to total atomization, then it is radically flawed and no amount of education or social programs, which in effect contradict the tenor of the system, can save capitalism from its innate tendencies. Given the number of hours that the German worker is expected to work and the type of labor he is engaged in, education is meaningless because the great mass of workers is physically exhausted by the work that it does. Only a few would be in a position to take advantage of this whole shiny apparatus of educational opportunities, only a few would be able to understand what the educated gentlemen were telling them.⁴⁰ In addition the quality of the education which the liberal party is offering to the working classes is deficient because religion and Christianity are missing from it entirely.⁴¹ The materialist educators, as a result, will spread addiction to pleasure and darkness, and rip Christian principles out of the heart of workers, and plant in their stead lack of faith and absence of consolation; they will promote godlessness and immorality, and will awake in their hearts all of the passions, which will make this poverty unbearable, and deprive him of any consolation which can come from the exertions of his labor.⁴²

Convinced of the superficial nature of the policies proposed by the liberal reformers, the radical party then stepped forward to make its own proposals. The state should hurry to the assistance of the worker and lend or give him the necessary capital to become the owner of these businesses.⁴³ Ketteler, however, felt that a proposal like this raised more questions than it answered. Aside from questions of practicality, the larger theoretical issue lurking in the background remained unaddressed, namely, did the government have the right to re-direct the wealth of the owning classes by taxation? Before Ketteler felt that he could examine the nature of property and distinguish between the Liberals, who declared that property rights were absolute and that they justified withholding food from the starving, as happened in Ireland during the potato famine, and the followers of Proudhon, who claim in reaction to Liberalism's exaggerations that property is theft, he had to make an even more basic distinction between those who believed in a personal God and those who didn't:

At this the people in the present age fall into two separate camps and must fall into two separate camps because of their religious worldview. The one group which believes in a personal God as the source of all things, and who believe in revelation and especially in Christ, and who believe in the truth that we are through him and the natural order of things, will see God as the highest source

and the norm for the law and its sanctions. The other group, on the other hand, which denies the existence of a personal God, who see no connection between man-made laws and the *lex aeterna*, the eternal law, which finds its foundation in the eternal intelligence of God, which in addition to all that denies any supernatural revelation and Christ as well, can only find the norm and sanction for the Law in the *volonté générale*, and since there is no such thing, and since at any rate no one can apprehend it, this group must seek the aid of a Fiction, which at one point may be the king, or at another the majority of some legislative chamber or in some national assembly, or at another both at the same time as the interpreter of the *volonté générale*.⁴⁴

Ketteler uses this distinction to explain his understanding of property. Deprived of belief in God, both the British Liberals and the Socialists who rejected their creed came up with a distorted notion of property which ranged from absolute value according to the former group and immorality according to the latter. Blackstone's definition of property as "that sole and despotic dominion which one man claims and exercises over the things of the world, in total exclusion of the right of any individual in the universe"⁴⁵ led quite naturally to Proudhon's idea that property is theft. Both notions of property are wrong, Ketteler attacks both. He counters Proudhon, when he writes:

The claim that property is theft is therefore without a doubt a denial of one of the first and most necessary natural laws. As important as it is to recognize this fact, it is not in any way sufficient to give property rights their proper and secure foundation.⁴⁶

But he counters Blackstone and the tradition of British Liberalism by putting property into the context of not English positive law but God's divine law. When viewed in the light of that divine law, property has "only a conditional justification,"⁴⁷ based on the prudential application of the moral law. This is so because "Nothing is unshakable in itself other than God alone and his holy will. Everything else has only a provisional existence and provisional justification."⁴⁸ Both property and authority can only be understood in a larger context which includes their deep and fast roots in religion and in the living faith in God, and in Christianity which teaches us the true and eternal faith in God. Defining property apart from this context, which is what happened during both the aftermath of the Reformation, which created absolute property rights, and the aftermath of the French Revolution, which abolished them, is tantamount to separating the tree of society from its theological roots:

If you cut off these roots, then society is like a tree with its roots cut, it looks the same, but it falls with the first big wind. This inner impotence has made itself apparent time and time again. Man can only carry out the satisfaction of his needs through recognition of the right of private property. If man wants to live in peace and order, then the right to private property must be recognized as part of the

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natural law every bit as much as breathing. Any disputing of this fact will lead to the war of all against all.⁴⁹

In reacting to the rise of socialism based on the claim that all property was theft, Ketteler established the right to private property in a fallen world without repeating Aquinas's more basic claim about mankind as the common beneficiary of all creation. It is the sinful disposition of man that makes private property a necessary convention. Metaphysically, property is common, and that metaphysical truth is fixed in the nature of creation. Private property may be part of the natural law after the Fall, but property, if by that we mean all of creation, is naturally common and meant for the benefit of all. It is due to sin that private property is a necessary convention for peace and order, not because of the order of creation.

The Scottish Enlightenment, not communism, divorced the man-made laws from the eternal law and made them a function of sentiment, which could then be articulated by elected assemblies as the voice of God. Once that idea became widespread, it was only a matter of time before someone took the notion of *vox populi vox Dei* to its logical conclusion. Because both views of property derive from the Enlightenment's denial of God, Communism flows ineluctably from Liberalism:

If there is no personal God, . . . if the liberal party is correct, then the whole structure of private property with all of its laws, which regulate it, is a function of human will and nothing more than human will, and if that is the case then I see no reason why the overwhelming mass of people, who own no property, shouldn't by majority decision take part of the property from the property owning classes as a loan. And if there is no reason to prevent that then there is no reason not to appropriate the same amount of property outright.⁵⁰

If everything depends on the will of majority, then:

The ineluctable conclusion which flows from this whole system is: one chamber, and whatever this chamber decides is the law, and whoever resists this law by invoking his conscience, or his faith, or custom, or Christ or God, is a traitor, and he sins against the majesty of the will of the people. Why in God's name should this majesty all of a sudden stop short before the money bags of the rich capitalists? If these people have the right to trample our conscience underfoot, the right to ridicule our faith, the right to deny Christ and God, it would unspeakably preposterous to want to claim that all of a sudden the new world order juggernaut will suddenly roll to a halt as if enchanted in front of the money bags of the millionaires. No, no, God is not going to prevent that from happening. That will never happen. We must drink the consequences of our principles to the last drop, no matter how bitter that drop may be. The new assembly will have no qualms about enforcing the justice of Lassalle's proposed measures. In fact this is just a preview of things to come.⁵¹

Ketteler responds to the Capitalists who let their tenants starve to death on the one hand and the Communists who would expropriate everyone's

property on the other by reiterating the dual theory of property first enunciated by Aristotle, namely, that the right to private property is licit but not absolute. The right of private property cannot grant an absolute, unlimited right; this right comes from God in whom the source and measure of all things is found, and His measure determines the limits of property rights. According to the Catholic view, God alone is the absolute property owner, and man only a provisional administrator of that property, according to the degree which God has ordained.⁵² Property is an arbitrary social convention whose details are within the prudential range of authority of the state to determine on the basis of which will return the most reliable contribution to the common good.

Ketteler does not address the Irish potato famine in his book on the labor issue, but he deals with the underlying issue it posed to a world that was enthralled with capitalist theory when he claims that it is the unanimous view of Catholic theologians that the obligation to respect the conventional right of private property does not extend to men who find themselves in the extremes of necessity (in *extrema necessitate*).⁵³ The right of private property dissolves at the moment it makes contact with the great need of the disenfranchised. That means that anyone who finds himself in extreme need is justified, when all other means have been exhausted, to satisfy this need any way he can. Because of this, the state can demand that the propertied classes in any community have a duty to care for their own poor, which is to say that they are bound to provide whatever it takes from their property to the poor in moments of life and death necessity. The state can and should appropriate the property of its citizens in extreme cases like the potato famine to alleviate extreme need. In fact the citizens themselves have this right without recourse to state approval, but the property owner cannot be forced to give up his property simply to better the lot of his fellow man.⁵⁴ The wonderful economy of God's plan for man on earth prevents the abuse of freedom from leading to a general uprising, a phrase which neatly summarizes the history of economic thought from the writing of Adam Smith's *Wealth of Nations* to the Revolution of 1848.

The strictures which Ketteler laid on property apply *a fortiori* to the family, which was also to be abolished according to the program of the communists. If anyone needed proof that the suggestions of the radical party were inhumane, it could be found in their desire to abolish the family. As in the case of property, the radicals were abetted in their project by the right-wing British Liberals, who downgraded the sacramental and sacred nature of marriage to the status of a civil contract, which a man can terminate whenever he wants with the agreement of both parties, leading to an enormous increase in divorce.⁵⁵ The destruction of marriage, either by revolution or Liberal legislation had a devastating effect on society as

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a whole, but it was felt most acutely by those who had the least. Ketteler felt that poverty was bad enough, but combined with promiscuity it could degrade any people to the lowest conditions found in antiquity.⁵⁶ This will happen if the worker lets himself be persuaded to destroy family and marriage and surrender to the corrupting pleasures that are daily offered to the people, in organs of the Liberal party and praised as the highest forms of life's pleasures.⁵⁷

In response to the Communists' proposal to abolish the family, Ketteler felt that the Christian family was indispensable as a solution of the worker problem.⁵⁸ As long as the worker had a Christian family, the husband a Christian wife, the wife a Christian husband, the children Christian parents, and the parents Christian children who obeyed the fourth commandment, the worker would have a bulwark that would not be swept away by the disintegrating forces of capitalism. The family provide a bulwark against moral corruption, and it provided the basis for physical well-being. "If," Ketteler wrote, "we encounter certain peoples who hardly have enough to eat in glowing health the main reason for this is chaste and pure morals."⁵⁹

The low pay of the worker, Ketteler continues, is augmented by the Christian family. The dollar which the worker gives to his Christian wife attains through her efforts an entirely different value than the dollar which the frivolous wife receives.⁶⁰ The family is a God-ordained association which provides the worker with the best and most effective protection for his existence, without which no other association, no matter what you want to call it, has any meaning.⁶¹ Ketteler has no hesitation in saying that the Christian family and Christian marriage with their roots in the teaching and grace dispensing Catholic Church had an infinitely greater value in bringing about a solution to the worker question than all of the proposals and endeavors of the liberal and the radical parties put together.⁶²

The ultimate solution to the worker question, however, is the confessional state, which will dispense with the fictions of the Enlightenment state and strive for a concrete amelioration of the lot of the worker. One of the most prominent is the fiction that the will of the people finds expression in legislative assemblies.⁶³

The socialists wanted to improve the lot of the worker by turning him into a businessman; Ketteler has something more concrete in mind. The main question that needs to be asked in light of both British liberal and continental radical proposals is: how is this going to bring about the situation wherein the worker gets a higher wage for his labor?⁶⁴ The revolution may bring about the millennium, but that's not the way to get the worker higher wages. The way to higher wages is the restoration of Christianity's hegemony over European culture because the cause of the current worker problem lies in the departure from the spirit of Christianity which has

taken place in the past century.⁶⁵ Because the spirit of Christianity no longer informs minds with the highest and eternal truths, the lower levels of political and social life have fallen prey to false principles, abstract one-sidedness, and liberal fanaticism which can destroy the social fabric but can't restore it. Because Christianity is no longer in the position to keep selfishness and its passions in line, we see dangerous developments on the horizon. Ketteler reminds his readers that capitalism began with the theft of Church property. The money which is owed to the Church because of the violent act of secularization has a very large value. If this stolen church property could be used to ameliorate the lot of the poor, this would count as a kind of restitution of church property.⁶⁶ The Church could then found and maintain institutions to care for workers who are no longer able to work.⁶⁷ The typical father of a family from the working poor has spent the ten best years of his youth working in a factory; he offered up the best part of his health there; because of the division of labor in the factory he learned no other skill, other than the little mechanical adjustments which are part of the entire production process but have no value in and of themselves. The average life expectancy of a factory worker is at best perhaps 40 years, and he begins to get sick at the very moment when he needs the job the most. According to Ketteler, there could be nothing more Christian than to found productive associations of workers on a Christian basis.⁶⁸

Ketteler concludes his book by claiming that only Christianity has the means to improve the condition of the working class, which is now heading in the direction from which it emerged under paganism.⁶⁹ Christianity smashed the slave's chains, which had been so stoutly forged that they were considered part of the nature into which man was born. Christianity broke the back of slavery in the ancient world, something that seemed impossible at the time, and it did so without recourse to revolution. Church history doesn't record one instance in which the teaching of the Church broke the chains of bondage by urging the slaves to revolt or to murder their masters. If Christians were to treat their slaves in the manner which Paul demanded, then slavery would soon disappear peacefully. Christ overcame slavery by announcing eternal truths which healed the soul. The chains of slavery dissolved over the course of centuries through an internal spiritual process that was nothing short of miraculous.

By the dawn of the Middle Ages, this process was virtually complete in every Christian land in Europe. It was destroyed by the Reformation, which allowed even "the executioners' assistants who crucified Christ, the right to claim that they were Christians, friends of Christians, and Christian supporters."⁷⁰ The Reformation was the biggest deception ever foisted on the German working class because it allowed people who use the words of Christ to attack the Christian church's teachings on justice. If we looked

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closely at the people supporting these "Christians," we would discover a big pack of Jews and an even bigger pack of atheists who praise themselves daily as the true representatives of Christianity.⁷¹ The worker question would be easy to resolve were it not for the split in Christendom.⁷² The Reformation has done much to obscure the fact that only Jesus Christ, the son of the living God, can help the working class in the future. When faith in him and in his spirit permeates the world, the worker question will be resolved.⁷³ If, however, the liberal spirit prevails, then all the great endeavors which are undertaken for the working class will fail and the working class will revert to the position it held when the gods of the Pantheon ruled the world:

Let's hope that the working class will recognize this. Let's hope that it will turn away from "friends" that want to rob him of his faith in the divinity of Christ. Those are his biggest and most dangerous enemies, the avant garde of the spirit that is now forging their chains.⁷⁴

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Chapter Eighty-One

The Crime of '73

The biggest threat to what the usurer class referred to as “sound money” was war. Under normal circumstances, economies yoked to the gold standard would plod along at a fraction of their productive capacity because the usurer class which controlled the political oversight of the economy continued to benefit from chronic deflation at the expense of labor. War, however, invariably put an end to the strangulation of the productive capacity of the nation under the rubric of “sound money.” Once war broke out, the political class was forced to abandon their commitment to the gold standard favored by the usurer class. In order to meet the war emergency, the government suspended convertibility and produced instead a fiat currency which restored the productive capacity of the nation to its full potential until the state of emergency had passed.

After lying dormant for the three decades following Andrew Jackson’s destruction of the Second Bank of the United States, the money problem returned when the Civil War broke out and Abraham Lincoln was forced to expand the money supply to win the war. In short succession, Congress suspended the gold guarantee and allowed Lincoln to borrow \$2.6 billion to finance the war effort. Lincoln then issued \$500 million in fiat currency, bills which came to be known as “greenbacks.” This reckless expansion of the money supply brought about an inflation that was entirely predictable. Within the first three years of the war, prices rose by 74 percent. The only comparable rise in prices in US history came as the consequence of the issuance of paper money during the Revolutionary War.

Then, as in Lincoln’s time, the upside of an expansion of the money supply and the inflation that went with it was a booming economy. Farmers got good prices for their products; workers got high wages,¹ and the money both groups received went back into the economy and fueled the boom, which not surprisingly allowed the producers of war materiel to make vast fortunes, which in turn allowed them to buy government bonds, which would have significant consequences after the war was over.

Once the South was defeated and the war emergency passed, the creditor class reasserted its control of the nation’s money supply and demanded a return to the deflationary policies that increased their wealth at the expense of everyone else’s labor. The rancor over the monetary system that characterized the 1830s in the United States took a back seat to the slavery issue and the Civil War in the middle decades of the 19th century, but it

broke out anew in 1873 with the passage of the Fourth Coinage Act, less than 40 years after Andrew Jackson had broken the second bank. The Fourth Coinage Act simultaneously embraced the gold standard and demonetized silver, an act which permanently antagonized the silver mining interests of the West and led them to refer to the Act as "the Crime of '73."²

The real "crime of '73" was not the suppression of silver, as the Western mining interests would maintain. The real "crime of '73" was the deliberate deflation of the economy to pre-Civil War levels. This was accomplished simply by holding the money supply constant as the productive capacity of the nation expanded, a move which benefited the usury class at the expense of labor. The United States government could have levied taxes to redeem the wartime bonds that had financed the war, but this would not have been in the interest of the bond-holding class. Taxes would have cost that group a significant amount of money, but, more importantly, taxes were visible in a way that the deflation of the money supply was not. When taxes become onerous, as they would have, they provide a focal point for civil unrest. The longer-term more deceptive solution was "hold the supply of money at existing levels while the population and the economy of the nation expanded, thus forcing general price levels down to a point where it was no longer profitable to redeem paper dollars in gold to finance imports."³ This is exactly what happened.

The mechanics of deflation were simple, inexorable, and, best of all, invisible to its victims. During the last quarter of the 19th century, both population and production increased while the money supply was held constant. Doubling productivity while holding the money supply constant would cause the price of a bushel of wheat to be cut in half, and in addition, since money was now scarcer than before, interest rates would necessarily rise. The upshot of this policy was clear:

A person who borrowed \$1000 to buy a farm in 1868 would not only have to grow twice as much wheat in 1888 to earn the same mortgage payment he made earlier, he would be repaying his loan in dollars that had twice as much purchasing power as the depreciated currency he had originally borrowed. Thus while contraction was a blessing to banker-creditors, it placed a cruel and exploitative burden on the nation's producer-debtors.⁴

After the Republican party, sensitive to the needs of finance, put America back on the Gold Standard by passing the Fourth Coinage Act of 1873, "hard money" ensured that the booming American economy would be asphyxiated through lack of credit because gold can never keep pace with human productivity, especially in an essentially undeveloped land like America in the 19th century where productivity was increasing rapidly because of the development of new agricultural technologies. The gold standard is synonymous with usury, but in this regard, gold is the antithesis of usury.

Just as usurious compound interest will inevitably outstrip any possible manifestation of human productivity, so limiting the money supply to the amount of gold that the government has in its vaults will invariably strangle any economy, because, just as there is not enough human productivity to keep up with compound interest over the long haul, there is not enough gold to finance human productivity, especially at the dawn of an age of technological innovation in a bountiful but undeveloped country.

The gold standard was a recipe for economic disaster. The usurer class profited at the expense of labor, both in agriculture and manufacturing, which is to say at the expense of the vast majority of the American people and at the expense of the economy as a whole. The gold standard strangled the American economy with one brief exception—the greenbacks issued by Lincoln during the Civil War—for the entire 19th century. Whatever Americans achieved in terms of economic development during this extraordinarily productive century was achieved in spite of the gold standard/usury system not because of it.

The demonetization of silver led to a contraction of the money supply, which in turn led to the Panic of '73 and the recession which followed. Following the Panic of '73, America entered a period of deflation which would last for the rest of the century. The Republican Party was the party of Lincoln. It was the party which had won the Civil War, and it was at the same time the party which represented the country's financial interests. After the Civil War, the Republicans would use that military victory to consolidate the power of finance over the nation, and they would do this by "waving the bloody shirt" for the rest of the 19th century. The bloody shirt would disguise the fact that the economic policies the Republicans proposed were antithetical to the interests of the overwhelming majority of American citizens.

The Fourth Coinage Act of 1873 was a sign that the government had chosen the path of deflation, of hardening the nation's money to put an end to the inflation which the Civil War had brought about. Lincoln's greenbacks were retired and the economy forcefully shrunk back to its pre-Civil War size. As a result of the Republican decision to deflate the money supply, price levels for basic commodities fell steadily for more than 30 years. The era, in fact, came to be known as the Great Deflation. Wheat that sold for \$2.06 a bushel in 1866 sold for a dollar ten years later. By the 1880s, wheat was down to 80 cents a bushel. By the 1890s, wheat was getting only 60 cents, and farmers in the Dakotas were selling theirs as low as 35 cents a bushel.⁵ Cotton prices followed a similar declining slope. To make matters worse, falling prices were invariably accompanied by usurious interest rates. Both flowed from the same condition—a scarcity of money.

In order to make up for the shortfall in income that falling prices cre-

ated, the farmer was told to produce more, but this was self-defeating in an age of deflation. The mechanization of agriculture made it possible to produce greater yields, but the increase in supply drove prices down even further at the same time that the contraction of the money supply strangled demand. The result was falling prices, which meant more borrowing and defaults, which meant concentration of wealth in the hands of the usurers.

As a result, the farmer was forced to borrow more and more just in order to survive, but in an age of deflation, this meant that money borrowed at higher and higher interest rates had to be paid back with money earned more and more laboriously because of lower and lower commodity prices. As a result, the farmer found it impossible to keep up and often lost his farm to his creditors:

Every growing season, as prices fell, [the farmer's] land and labor became worth less. To begin again at the next planting they must borrow at more punishing rates to buy seed and supplies, but by harvest time, prices had fallen further and they were unable to pay off their obligations. To continue farming, they must borrow still more. Eventually, when the debt became overwhelming, they would forfeit the land to their creditors, just as the rentier accumulated larger and larger holdings when the French peasantry failed. The process—liquidation and consolidation—were as old as capitalism.⁶

The main source of this problem was the return to the gold standard. The gold standard supposedly guaranteed stable prices, but the price stability it promised was deceptive. Because of the deliberate contraction of the money supply that the gold standard necessarily entailed, prices fell throughout the period of the Great Deflation. Proponents of the gold standard simply ignored the downward trend in prices because the “swelling” or the “hardening” of the dollar was in their interest. It meant that those with the gold derived all of the profit from human labor. The gold standard was the classic example of state-sponsored usury appropriating all surplus value; it was capitalism in a nutshell.

Wars drove prices up, and bondholders determined to get maximal return on their wartime investments drove them down whenever they gained control over the levers of political power, which was more often than not. The tight money conditions imposed by restoration of the gold standard guaranteed permanently high interest rates, and the higher profits naturally flowed to the lenders, the banking system, and the owners of wealth. The gold standard also made the economy unresponsive to credit cycles. The money supply needed to expand every fall to finance the production of food through the marketing of that year's harvest, but the economy was tied to a quantity of metal which had nothing to with the needs of the nation's producers and laborers because:

Money creation was based on the quantity of gold in reserve, and, thus, more

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money could not be produced by the banking system until it acquired more gold reserves, usually by borrowing them from Europe. It took 15 days for a shipment of gold to cross the Atlantic. In the meantime, the banking system was on its own.⁷

The inflexibility of the gold standard led to recurrent liquidity crises which periodically ruined hundreds of banks and the thousands of people who had placed their savings in them. Like the Panic of 1837, these crises would generally start in agricultural sections like the South and the West when farmers brought their crops to market and merchants were unable to come up with the credit that would allow them to move these crops to their ultimate destinations. One reason that the Federal Reserve System came into being was the absence of a lender of last resort to help banks get through these recurrent liquidity crises. But the deeper cause, as Milton Friedman and Anna Schwartz have pointed out, was the gold standard's deflation of the money supply. This was certainly the cause of the panic of '93: "Loans that would have been good and banks that would have been solvent if prices had been stable or rising became bad loans and insolvent banks under the pressure of price deflation."⁸

The severe depression which the Fourth Coinage Act of 1873 caused lasted until 1879, but the deflation which the gold standard brought about didn't end until the first decade of the 20th century. It ended, not because the "money trust" stopped trying to strangle the economy in the interests of the bondholders and usurer class, but because two new large discoveries of gold—in Alaska and South Africa—increased the world's money supply.

The Gold Standard was fundamentally dishonest. It used the illusion of a self-regulating mechanism to advance the interests of the creditor class in covert fashion:

The goldbugs, who wished to restore the guarantee of precious metals behind paper money really wanted to remove the money illusion from the influence of man-made decisions. The rigid monetarists, who campaigned for a fixed, immutable rule that would govern money growth, wished to accomplish the same thing, only in a rationalistic fashion. Either way, by gold or by monetarist rule, money would become eternal again—protected from human manipulations.⁹

The covert engineering of the money supply to bring about deflation in the interests of the nation's creditors, who also backed the gold standard and the Republican Party, was complicated by the Western mining interests who proposed silver as the alternative to both gold and the resumption of greenbacks:

To greenback apostles, the entire controversy bordered on madness. The cry for silver was an utter delusion. To fiat-money men it was elementary that silver, like gold, was but another prop in a hard-money currency. As such it contributed to a relatively rigid money supply that hurt the economy and, among other maladies,

fostered high interest rates that benefited only moneylenders. While a measure of inflation could be achieved by coining silver on the proper terms, such terms were not being debated, were not widely understood, and were not likely to be as long as bankers continued to convince Americans that money had to have “intrinsic” value.¹⁰

Invoking mantras like “the gold standard” and “sound money” and the “sanctity of contracts,” the creditor class tried to induce a state of amnesia in their fellow citizens, who earned their livelihoods from labor and not usury. “Pay no attention to the prosperity which flowed from Lincoln’s greenbacks,” they were told by the man behind the curtain. It was all an illusion. The only reality was gold.

After the Civil War, the usury class perpetrated the same swindle on the people of the United States that their forbears had perpetrated in the aftermath of the Revolutionary War, when government bonds which they had bought up with worthless Continentals were redeemed in gold:

Bankers and other creditor-bondholders had a more specific motive for specie resumption. The currency had depreciated steadily during the war, and having purchased government bonds then, they, understandably, looked forward to the windfall profits to be made from redeeming their holdings in gold valued at the prewar level. A governmental decision to begin paying coin for its obligations would mean that, though the Civil War had been fought with fifty-cent dollars, the cost could be paid in one-hundred-cent dollars. The nation’s taxpayers would pay the difference to the banking community holding the bonds.¹¹

The result of this swindle after the Revolutionary War was Shays’ Rebellion. After the Civil War the same swindle led to the Populist revolt in Texas. For the first time since the Civil War, waving the bloody shirt to bring about economic amnesia didn’t work. When Dorothy and her companions walked through the poppy fields of post-Civil War capitalist culture and surreptitious deflation that the banking wizards in the Emerald City had inflicted on an unsuspecting nation, they didn’t fall asleep. They got angry instead. The representatives of labor who refused to forget war-time prosperity, in spite of the deliberate amnesia promoted by the usury class, came to be known as “greenbackers,” after the fiat currency which Lincoln issued during the war.

The ideas of the Greenbackers hearkened back to the Jacksonian era, which was superseded by the debate over slavery which led to the Civil War. Edward Kellogg, a self-made merchant who had been ruined by the Panic of 1837, wrote a book based on his experience entitled *Labor and Other Capital*, which argued for a currency that was not stable but rather one that would keep up with increasing population growth and productivity. Instead of gold, Kellogg proposed fiat money, which he portrayed as “the people’s currency, elastic, cheap and inexportable, based on the entire wealth of the country.”¹² During the 1860s, Kellogg’s ideas were adopted by

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the Philadelphia economist Henry Carey, the son of Matthew Carey, who supported the tariff position of Friedrich List, and it achieved a considerable following among the iron and steel manufacturers in western Pennsylvania.¹³ They eventually found political expression as the intellectual foundation of the Greenback Party, which came into being in 1876.

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Chapter Eighty-Two

Heinrich Pesch and the Lehrbuch

Midway through his discussion of the labor issue, Ketteler complained that there was no complete system of Christian economics.¹ Sixty years after Ketteler wrote those words, that would no longer be the case: Heinrich Pesch's *Lehrbuch der Nationaloekonomie* appeared in print in 1924. In his history of economics, Othmar Spann claimed that Pesch "penned the most comprehensive economic treatise every produced in the German language—a work instinct with true scholarship."²

Pesch was ten years old when Ketteler's book on the labor issue appeared. He joined the Jesuits just as the *Kulturkampf* was heating up in Germany and spent the next few years in exile in England learning about Capitalism where it had achieved its fullest expression. Pesch was inspired by Ketteler's example:

Our approach to this matter is by no means new. It was the venerable Bishop of Mainz, Wilhelm Emmanuel von Ketteler, who gave emphatic expression to this idea. We recall only one especially classic statement of it in his work: *The Labor Problem and Christianity*:

if the great liberal faction is right [when they say that there is no personal God or that the question of God's existence poses a scientific problem] then the private property right and all of the laws regulating it represent purely and simply the will of men and nothing more. I can see no valid reason therefore why anyone should decide one day by majority vote that the owning classes should lend them some of their wealth. In fact, it would seem inevitable that they would presently go a step further and decide to expropriate a part of the property of the wealthy.³

With Ketteler as his inspiration Pesch worked out a Catholic critique of socialism which saw it as both the logical outcome and inevitable reaction to capitalism:

Socialism as a political party was essentially nurtured by growing impoverishment and by every sort of exploitation and suppression. Therefore, it would be foolish and even dangerous if, aside from bolstering the influence of the Christian religion, we were to look for the most effective way to combat democratic socialism on any other field of battle than in the realm of practical social reform. Only after the causes underlying actual justified complaints are dealt with, then and only then will socialist agitation lose its effective force.⁴

The real enemy is not socialism but liberalism:

Therefore, what we fear more than all socialistic theories and election victories

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is the paralyzing influence of Liberalism which resists all attempts to restructure competitive and property relationships along Christian lines. So long as those who are running things do not recognize that the time of Liberalism has definitely run its course, and so long as its corrupting spirit interferes with governments and determines what kind of legislation there will be, democratic socialism will continue to celebrate victories and overwhelm the opposition with righteous indignation.⁵

Socialism became a force in 19th century political life, not because it had original ideas, but because its program was seen as the antidote to British laissez-faire Liberalism, which was the real source of the problem. Even Engels conceded that Communism's greatest thinker, Karl Marx, "never based his communistic demands on any new application of Ricardian value theory, but solely on the ever more complete breakdown of the capitalistic mode of production that is taking place daily, as if by necessity, before our eyes."⁶ Modern socialism is "a philosophy of history."⁷ It is in Engels' words, "a continuation of, and a clearly more consistent carrying out of, the principles established by the great French Enlightenment."⁸ It is a continuation of the atheistic-materialistic worldview which burst on the scene with the French Revolution. As the heir of the Enlightenment, socialism, especially its Marxist variety, purported to be a science but it was in fact "the unhealthy product of a delusive fantasy and of a reasoning process that has been badly befogged by fallacies."⁹ The rise of socialism is predicated upon the rise of liberalism, and the rise of liberalism is predicated upon moral decay:

Socialistic doctrines would not have made such an enormous impact if Christian thought and life had not already been so devastated among the higher, as well as among the lower classes, and if unbridled passion and relentless greed, had not been predominant instead of reason, conscience, and fear of God.¹⁰

Socialism thrives:

where reverence for Mammon had reached the level of public worship, and where depraved vices have also reached their apotheosis by the corruption of the art and the denigration of science, when self-seeking has attained the status of virtue; and finally where pettiness, cowardice, deceit, and flattery have taken the place of noble and generous sentiments.¹¹

Liberalism, "in the broadest sense of the word," involves:

that craving for freedom against every divine or human authority standing in the place of God which has lent its name to the nearly 400 year long revolutionary period, and which has at the same time become the ultimate source of all of its religious, political and social misery.¹²

The Reformation was the first major manifestation of this craving, but it doesn't bear all the blame because "without the emptying out of the ecclesiastical spirit which stemmed from . . . the Renaissance and Humanism

and the alienation of Christian thought and action which derived from these, Luther's ardent enterprise would have remained without significant results."³ Protestantism, which "took the principle of individual self-reliance and extended it to religious experience," combined in England with the thought of Lord Verulam to create a radically impoverished view of man and society which found in Hobbes the notion that the state arose from a mere contract.⁴ Sexual degeneracy was added to the mix by French *philosophes* like Voltaire and the Marquis de Sade, and the result was "a rabid hatred toward Christianity, the pure teachings of which ran counter to his immoral life-style":⁵

The only bond which united these degenerate literati was . . . the hatred of God which simmered in all of their hearts. . . . They were of one mind . . . to drag in the mire anything that was until then considered respectable, and in this regard they portrayed in whatever way possible the Christian faith and Christian morality as ludicrous, *passé*, and contrary to reason.⁶

Modern socialism constitutes the conclusion of the 400-year period of revolution because it is the ultimate conceivable consequence of the revolutionary notions of Liberalism. With the arrival of socialism, the train of Liberalism reaches its destination. This destructive idea has piled up more ruins in Europe and provoked more violent upheavals than the original migration of nations once caused. And it ends up notably in the same country where it all started, in Germany. "Socialism . . . is a complete *Weltanschauung*, as Mr. Bebel says: atheism in religion, democratic republicanism in the state, collectivism (state production) in the economy and . . . unbridled absolutism in ethics, naturalistic materialism in metaphysics, loosening of family ties and the marriage bond and whatever pertains to it in the home, state monopoly in education, universal 'enlightenment' in instruction. All of that adds up to freedom and equality with the accent on the latter."⁷

The hatred for the moral law which reached a fever pitch in the Communist Manifesto was only the logical conclusion of a train of events that got started during the looting of the Reformation but which found its fullest articulation in the writings of Hume and Smith and the Scottish Enlightenment because:

In the area of economic activity and economic endeavor everything was to be left to "nature," the natural instinct of self-love, and the natural acquisitive instinct in people. For this purpose a new "natural law" was discovered; and there was talk of the eternal "natural laws" of the economic order, so that any inconvenient intervention by state authority could be branded promptly as "unnatural." So what happened, in fact, was that there was ushered in an unnatural situation which in the sharpest contrast to the Christian natural law, allowed a clear track to even the most brutal self-seeking, and permitted capitalistic egotism to feast unimpeded on the torment and sufferings of those who were sacrificed to it.⁸

Like Ketteler, Pesch felt that the only antidote to 400 years of moral decay resulting in the revolutionary fury of the 19th and early 20th centuries was a return to true, i.e., Catholic, Christianity, which could then mount an attack on Liberalism, the real source of the problem:

If today in this final hour all the better elements in society would, in courageous and sacrificial fashion, rally around the banner of the Christian Church and the Christian state for an intense but ultimately victorious battle against liberalism—the embodiment of the Revolution in the area of thought, religion, politics, and economics—it would still be possible to work out a peaceful solution to the social problems which face us in our time. Failing that, however, the chasm created by the Revolution will not be bridged until democratic socialism will have come to a realization the ultimate absolutist consequences of liberalism also in the area of economic life, and until sad experience will have highlighted the corruption of human society.¹⁹

Socialism is not the antidote to Liberalism, nor, as is more commonly supposed in the period following 1989, is Liberalism the antidote to Socialism, because between the two there is “no basic difference in principle.”²⁰ Taken together, Liberalism and Socialism create a dialectic according to which each keeps the other in power, in at least cyclic fashion. It is pointless to expect the representatives of Liberalism to preserve the integrity of the state because they share the same antipathy to the Christian social order that the revolutionaries harbor. “Therefore,” Pesch concludes: “whoever wants to combat socialism effectively should direct his attacks against liberalism. Socialism will finally be vanquished not as socialism itself, but as it is incorporated in and together with liberalism.”²¹

That is the lesson Pesch learned from Ketteler, and it is the lesson which he transmitted first to Pope Leo XIII, who incorporated this thought into *Rerum Novarum*, the first encyclical on the social question, and then to Pope Pius XI, through Pesch’s disciple, Oswald Nell-Bruening, who articulated further ramifications of these principles in *Quadragesimo Anno*, when he wrote:

A double danger must therefore be carefully avoided. On the one hand, if the social and public aspect of ownership be denied or minimized, one falls into “individualism,” as it is called, or at least comes near to it; on the other hand the rejection of diminution of its private and individual character necessarily leads to “collectivism” or something approaching to it.²²

Pesch’s critique of Liberalism reached its high point of influence after World War II in Germany when Konrad Adenauer made it the official policy of the CDU, creating thereby the rush to prosperity known subsequently as the *Wirtschaftswunder*.²³

Situated firmly in the German idealist tradition of economic thought created by Fichte, Mueller, and List, Ketteler and Pesch brought to that body

of thought an understanding of the moral underpinnings of economic life that had been previously lacking. Pesch and Ketteler administered the coup de grace to Smith and the Scottish Enlightenment by showing that self-interest cannot serve as the basis for economic life, because:

The acquisitive instinct as such . . . contains in itself and of itself no limit, no restriction; and that moreover it needs restrictions if society is not robbed of its happiness so that it will indeed be ruined. . . . Self-love is therefore of its nature not a social principle, and it is not a unifying bond with any constancy, but a generally divisive force leading not infrequently to the harshest kind of antagonism, which will eventually also divide into hostile classes a society in which it comes to be applied without restriction.²⁴

In his *Theory of Moral Sentiments*, Smith tried to explain how sympathy could place restrictions on self-love, but he failed to do so, and if any proof of his failure were needed, the history of economic development under his aegis provided that. In the end, all that Smith could depict were the "nature and causes of individual private wealth."²⁵ He could not explain how one man's private wealth interacted with another's in any convincing way, nor could he explain how the wealth of a nation functioned or how the private often contradicted the public spheres of life, especially when it came to self-interest.

This failure is precisely what Germans like Ketteler and Pesch set out to remedy. To the extremes of Communistic unity on the one hand and individualistic fragmentation on the other, they proposed the middle ground that the moral-organic concept of social life allowed, according to which property was a right but not an absolute right, and the road of amelioration which held concrete issues like raising the workers' wages before its eyes was espoused in lieu of revolution which threatened to destroy what little the worker had in terms of property and family that protected him from the rapacity of the capitalists. When given a choice, the workers in England and Germany began to feel, like their *confrères* at the barricades in Paris during the June days of 1848, that they might have more to lose than their chains by engaging in the revolutionary Armageddon which Marx and Engels had planned for them. Bishop von Ketteler responded to Marx's theory of enmiseration with a concrete plan of amelioration, which got articulated in a speech Ketteler gave to 10,000 workers on Liebenfrauenheide near Offenbach in 1869²⁶ and which eventually found its way into the constitution of the Bundesrepublik and the economic policies of Erhard and Adenauer after World War II. More than anything else, Ketteler and Pesch claimed that the only suitable basis for the economy is "the divine moral law which stands fast amid the flow of phenomena."²⁷

Endnotes

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- 2 Othmar Spann, *The History of Economics*, (New York: W.W. Norton & Company, Inc.), 1930, p. 277.
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- 4 Pesch, *Liberalism*, IV, p. 4.
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- 24 Pesch, *Liberalism*, I, pp. 241-2.
- 25 Pesch, *Liberalism*, I, p. 242.
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Chapter Eighty-Three

Bismarck Abandons Kulturkampf

Twenty years after the Irish potato famine that came to be known as the Black '47, Karl Marx's *magnum opus Das Kapital* finally rolled off the presses. In it Marx wrote that "The Irish famine of 1846 killed more than 1,000,000 people, but it killed poor devils only." O'Grada claims that Marx was "almost right" because "many who were not abjectly poor and starving died of famine-related diseases." Marx claimed that "in the time of Cromwell, the English had supplanted the Irish Catholics with Protestants, but during the famine they supplanted them with cattle." Marx, we are told, "was heavily influenced by events happening in Ireland as he wrote in London."⁴

The word "Capitalism" entered the political and economic vocabulary of the 1860s, largely as a result of the publication of *Das Kapital* in 1867 but also because the global triumph of Capitalism in the period following the Revolution of 1848 seemed like an undeniable fact of life:

It was the triumph of a society which believed that economic growth rested on competitive private enterprise, on success in buying everything in the cheapest market (including labor) and selling in the dearest. An economy so based . . . would, it was believed, not only create a world of suitably distributed material plenty, but of ever-growing enlightenment, reason and human opportunity, an advance in the sciences and the arts, in brief a world of continuous and accelerating material and moral progress. The few remaining obstacles in the way of the untrammelled development of private enterprise would be swept away.⁵

The industrial growth which took place during this period silenced all but the most ardent critics of Capitalism:

By 1870 France, Germany, and the US each produced between one and two million tons [of coal], though Britain, still the "workshop of the world," remained far ahead with almost six million or about half the world output. In these 20 years world coal output multiplied about two and a half times, world iron output about four times. Total steam power, however, multiplied by four and a half, rising from an estimated 4 million HP in 1850 to about 18.5 million HP in 1870.⁶

Although *Die Arbeiterfrage und das Christentum* preceded the publication of *Das Kapital* by three years, Ketteler's book lacked the scope of Marx's. Pesch's *magnum opus*, which was comparable in scope to *Das Kapital*, would not appear for another 60 years. This gave Marxian economics a temporal head start that the Catholics were unable to overcome. As a result, the labor theory of value, an idea compatible in its essence with the

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Benedictine motto of "*ora et labora*," and one which contributed to the creation of German economics, was corrupted by the materialism of its largely English and, in the case of Marx, Anglophile proponents.

The labor theory of value found its first expression in the writings of John Locke, who claimed in the *Second Treatise on Government* that property derives value from labor through the act of "mixing" one's labor with what man finds in nature. Adam Smith took up the idea in the *Wealth of Nations* when he wrote:

The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people.⁷

Smith complicated matters by introducing the paradox of value:

The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use"; the other, "value in exchange." The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.⁸

Smith felt that value in exchange was related to labor but in a way which he could not specify:

The value of any commodity, ... to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.⁹

David Ricardo developed a more complete labour theory of value which claimed that the value of commodities in exchange was equal to or proportional to the amount of labor embodied in them: "The real price of a commodity is here properly stated to depend on the greater or less quantity of labour and capital (that is, accumulated labour) which must be employed to produce it." This included "the current labour required to produce them, plus the past labour embodied in tools, building, implements, and equipment (i.e. in the capital stock required to produce the commodity)."¹⁰ In *Principles of Political Economy and Taxation*, published in 1817, Ricardo, claimed that "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quan-

tity of labour which is necessary for its production, and not as the greater or less compensation which is paid for that labour."¹¹ The neatness of his formula did not prevent Ricardo from being troubled by certain anomalies. He could not explain, for example, how wine could be kept in a cellar for three years and constantly increase in value.¹²

Marx expanded on Ricardo's theories without resolving the anomalies. If 25 loaves of bread consistently exchange for 2 pairs of shoes, there must be some common measure of value that allows the two commodities to be compared in quantitative terms. The common denominator of value is the "cost of production of each," which can be reduced to the labor time necessary to produce each item.¹³ "If we then disregard the use-value of commodities, only one property remains, that of being products of labour."¹⁴ Now this exchange value is not based on just any labour, but "are all together reduced to the same kind of labour, human labour in the abstract. ... they are merely congealed quantities of homogeneous human labour-power expended without regard to the form of its expenditure. ... As crystals of this social substance, which is common to them all, they are values, commodity values."¹⁵ While it is concrete labour, that of the baker or shoemaker, that is used to produce the respective goods, what is equal here is not the concrete labour, but the labour time involved in producing the goods. Thus the value of a commodity is the amount of homogeneous human labour or socially necessary labour embodied in the commodity.¹⁶

Neither Marx nor Ricardo deal adequately with the impact of land value, but, contrary to popular belief, Marx does not base his theory of value on what he dismisses as "ascribing a supernatural creative power to labor," arguing in the *Critique of the Gotha Program* that: "Labor is not the source of all wealth. Nature is just as much a source of use values (and it is surely of such that material wealth consists!) as labor which is itself only the manifestation of a force of nature, human labor power."¹⁷

The distinction is crucial, but it doesn't save Marx's theory from the irrational consequences of the materialistic premises he brought to its formulation. In formulating his labor theory of value, Marx put "the finishing touches on the mechanical outlook of the classical economists." Instead of claiming that labor should be valued properly, something he couldn't do because of the moral nature of the claim, Marx tried to turn value into an "objective substance," i.e., into "congealed labor."¹⁸

Instead of resolving Ricardo's contradictions, Marx ignored them and asserted "that the actual constitutive substance of value is labor alone; and that is measured exclusively in terms of labor time."¹⁹ This left him in the same situation as Ricardo, which is to say incapable of explaining why "wine which grew in more suitable locations, even though there may have been less labor involved in its production, ha[s] more exchange value than

wine which grew in less suitable terrain."²⁰ One wine has a higher price because it is better, and oftentimes it is better because of factors which have no relationship to labor, e.g., climate and soil, and even more inexplicably, time. "How," Pesch wonders, "do you explain the increase in the value of wine solely with the passage of time? The small amount of labor needed during the period of storage cannot explain the sometimes enormous increases in its value"²¹ because "the level of value is ultimately determined by the fact that there is greater or less need, in other words by the relationship between need and availability."²²

Marx ignored this difficulty because it "clashed too obviously with the dogma that is proposed for our belief in the first volume of *Kapital*."²³ The labor theory of value then led to the notion of "surplus value," which led to the claim that "the capitalist method of production is based on the appropriation of unpaid labor," or on the "exploitation of the worker" which in turn led to the enmiseration theory, which asserted dogmatically that things had to get worse, which would lead inexorably to revolution, followed by the dictatorship of the proletariat and heaven on earth. However:

if it becomes clear that labor and time do not and cannot measure the value of products, then the surplus value theory also collapses; and the entire doctrine of the rise and accumulation of capital by the exploitation of manual laborers loses all of its scientific credibility.²⁴

The moral objection to the exploitation of labor could not be supplanted by materialist mechanisms that purported to provide an exact calculation of value based on labor. In spite of the salutary threat which socialism provided to unlimited capitalist exploitation, history proved Marx wrong. Amelioration based on moral considerations ended up trumping enmiseration leading to revolution:

In the broad context of the beginning of the 20th century, there was apparently a much to be desired improvement in the condition of the working classes by socio-political legislation . . . and by labor unions, etc. It was a kind of improvement which could not even be denied by the socialists, and which on the other hand, also refuted the Marxian immiseration theory which was based on the exploitation theory. This showed that immiserization by no means had to proceed naturally by inevitable, immanent laws of development which were intrinsic to the capitalistic era. Wages had increased. The conditions in the factories had improved, and there was effective protection of health, life and morals.²⁵

"That the workers are not always paid according to what they contribute to the productive process and that there are not a few cases of unacceptable exploitation and substandard wages cannot be denied,"²⁶ but the flaws in the system flowed from moral defect, not "natural necessity flowing from private ownership of the means of production and the production of commodities as such."²⁷ The source of the problem lay not in the mechanics

of production of commodities for market, but in "absolute free competition and the atomizing tendencies of economic individualism which bring about anarchy."²⁸

Because materialism makes no essential distinction between spirit and matter, it cannot address the needs of workers who have been reduced to the level of commodity by the capitalist wage system. Instead of ameliorating the lot of the worker by treating him as a person, the communist reaction to liberalism (which is in reality the culmination of liberalism) strips the worker of what little dignity has been left to him, replacing "even the family, maternal love and paternal providence" with "the social care and training of youth."²⁹ By replacing moral choice with historical-materialistic mechanisms, the communist system denies the most basic freedom of economic life, which is the ability "to spend private incomes according to one's own individual choice"³⁰ and with it "the most essential component of civil liberty," and with choice goes the market place, and with the market place goes the ability to price goods, and with that the ability to produce them in any effective manner. Pesch sketched out the entire trajectory of the Communist era in 1924 when the first glow of the NEP was engendering optimism in the nascent Soviet Union.

By 1868 the First International's influence had begun to spread across Europe, drawing new members, including Wagner's erstwhile comrade in arms, Mikhail Bakunin.³¹ On December 22, 1868, Bakunin wrote to Marx from Geneva, swearing his allegiance to the revolutionary cause of the International:

My dear friend, I understand more clearly than ever now how right you were to follow the great path of economic revolution, inviting us to go with you and condemning those of us who frittered away our energies in the by-paths of partly national and occasionally wholly political ventures. I am now doing what you have been doing for the last twenty years. Since my solemn and public breach with the bourgeoisie at the Berne congress I know no other society and no other environment than the world of the workers. My Fatherland is now the International, to whose prominent founders you belong. You will see therefore, my dear friend, that I am your pupil, and I am proud of it. So much for my attitude and my personal opinions.³²

The reconciliation was short-lived or premature, depending on your point of view. Within four years of its founding, the First International had become polarized into two camps with Marx and Bakunin as their respective leaders. The anarchist faction, which gathered around Bakunin, favored "direct economical struggle against capitalism" without interfering in the political process, whereas Marx was concerned with parliamentary activity, particularly in Germany where Bismarck introduced male suffrage after the unification of 1871.³³

There were other differences as well. Marx felt that the industrial prole-

tariat was the backbone of the revolutionary movement, whereas Bakunin, because of his focus on direct revolutionary action, was willing to include declassed youth, the peasantry and even the criminal element, which Marx disparagingly referred to as the Lumpenproletariat, into his ranks.³⁴ Because he spent a good deal of his adult life in jail, Bakunin was at an intellectual disadvantage to Marx when it came to understanding the economic ramifications of what he was proposing. He was also incapable of seeing that the project of anarchy was intrinsically untenable. "Anarchism," according to Pesch, "needs no refutation. There is no way in which order can arise from anarchy, even if people were to alter their nature totally. Wherever there is order, there must of necessity be subordination."³⁵

Like Karl Marx, who wrote poems in his honor as a young man,³⁶ and Percy Bysshe Shelley, who saw Lucifer as the hero of Milton's *Paradise Lost* and urged the Irish to emulate his rebellion, Bakunin was an enthusiastic supporter of Satan as the first revolutionary, or as he put it, "the eternal rebel, the first freethinker and the emancipator of worlds," who "makes man ashamed of his bestial ignorance and obedience; he emancipates him, stamps upon his brow the seal of liberty and humanity, in urging him to disobey and eat of the fruit of knowledge."³⁷

As a result of Bakunin's personality and his lack of intellectual formation, anarchism drifted into the "propaganda of deeds," which is to say any activity which would bring about "the quickest possible and ultimate destruction of the existing order," especially after the de facto leadership of the movement fell under the direction of Bakunin's protégé Sergei Netschaejev, author of the *Revolutionary Catechism*. "Day and night," Netschaejev wrote,

we may only have one thought, one purpose: inexorable destruction What is needed is the bloody advertisement for anarchism, the propaganda of deeds. Without sparing our own lives, we have to penetrate into the life of the nations with a series of daring, even senseless outrageous actions, to . . . unite them so as to lead them to the ultimate triumph of their cause.³⁸

Needless to say, any program of this sort was going to provoke a bloody reaction:

In consequence the brutal lust to smash the International by force of arms grew rapidly. Even in England bloody collisions took place between striking miners and the military. In the mining district of the Loire, drunken soldiery staged a blood-bath near Ricamarie, and 20 people were shot down, including two women and a child. Once again Belgium distinguished itself most horribly, "the model State of continental constitutionalism, the comfortable, carefully-fenced paradise of landowners, capitalists and priests," as it was called in a powerful appeal drawn up by Marx and issued by the General Council to the workers of Europe and the United States on behalf of the victims shot down in Seraing and in the Borinage by the ruthless fury of the profit-hunters. "The earth completes

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its annual revolution no more certainly than the Belgian government its annual slaughter of the workers," declared Marx.³⁹

One of the European leaders who was most concerned about the rise of the International and the threat that it posed to the social order was the chancellor of Prussia and later all of Germany, Otto von Bismarck. Born into a Prussian Junker family in 1815, Bismarck dominated European politics from the mid-1860s until his dismissal at the hands of Kaiser Wilhelm II in 1890.⁴⁰ Having watched the German national assembly which was convened in Frankfurt as a result of the upheavals of 1848 fizzle into pointless talk, Bismarck decided that the only way to bring about the unification of Germany was by military force under Prussian hegemony, a plan he articulated in his famous "iron and blood" speech on September 30, 1862. "The great questions of the time will not be resolved by speeches and majority decisions—that was the great mistake of 1848 and 1849—but by iron and blood."⁴¹

As Prussia's chancellor, Bismarck waged a series of wars during the 1860s which culminated in his victory over France in 1870, which allowed him to unify the German principalities under Prussian leadership in 1871. In a move that would have far-reaching consequences, Bismarck imposed an indemnity on defeated France, which calculated on the basis of population was the precise equivalent of the indemnity which Napoleon imposed on Prussia in 1807.⁴²

Bismarck then turned his attention to the Catholic Church, which he perceived as a threat to German unity because of the political power it wielded. During the course of his Kulturkampf against the Church, Bismarck imprisoned bishops and priests, and those he did not imprison he drove into exile. In 1872, the Jesuits were expelled from Germany, and Heinrich Pesch took the opportunity to go to England to begin his study of economics. In attacking the Catholics, Bismarck unwittingly strengthened the hand of the anticlerical left, a much more dangerous threat, and called into existence the Catholic Center Party, with which he eventually had to ally himself to deal with the more potent threat on the left.

Bismarck was eager to put an end to the Communist threat, but he found himself thwarted by the English, who in keeping with their policy of promoting abroad what they banned at home, protected the International. Lord Granville claimed that in England:

the International had limited its operations chiefly to giving advice in strikes, and had only very limited funds with which to support such actions, whilst the revolutionary plans which formed a part of its program represented rather the opinions of its foreign members than those of the British workers, whose attention was directed chiefly to wage questions. However, foreigners in England enjoyed the protection of the laws of the country in the same way as British subjects.

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If they violated these laws by conducting warlike operations against any country with which Great Britain maintained friendly relations they would be punished, but for the present there was no reason for taking any special measures against foreigners on British soil. This reasonable rejection of an unreasonable demand caused Bismarck's semi-official mouthpiece to snarl that any measures taken against the International would for the most part remain ineffective so long as British territory represented as asylum from which all the other States of Europe could be disturbed with impunity and under the protection of the British law.⁴³

Their dogmatic and unbreakable commitment to revolutionary violence proved disastrous for the political strategy of the Marxists. When the first elections took place in England on the basis of the reformed franchise in 1868, not a single workers' representative was elected.⁴⁴ In both England and Germany amelioration won out over revolution. This prompted Bakunin to attack the "German Jews" in the movement, even though he did not include figures like Lassalle and Marx in his attacks for tactical reasons. Bakunin claimed that he refrained from attacking Marx because of "justice":

Apart from all the nasty tricks he has played on us, we, or at least I, cannot ignore his tremendous services to the cause of socialism, which he has served for almost twenty-five years with insight, energy and disinterestedness, and in which he has undoubtedly excelled us all. He was one of the founders, the chief founder in fact, of the International and in my eyes that is a tremendous service and one which I shall always recognize no matter what he may have done against us.⁴⁵

Recognizing that three-quarters of the International would be against him if he attacked Marx, Bakunin held fire even though he claimed that Marx:

cannot stand me and loves no one but himself and perhaps those who are nearest to him. Marx's influence in the International is undoubtedly very useful. He has exercised a wise influence on his party down to the present day and he is the strongest support of socialism and the firmest bulwark against the invasion of bourgeois ideas and intentions. I should never forgive myself if I had ever tried to destroy or even weaken his beneficial influence merely in order to revenge myself on him. However, a situation may arise, and shortly at that, in which I shall take up the struggle against him, though certainly not in order to attack him personally, but on a question of principle, on account of the State communism which he, and the English and Germans he leads, support so enthusiastically. That would be a life and death struggle, but everything comes in its own good time and the hour of conflict has not yet arrived.⁴⁶

As the communists contined to fight with each other, America and Germany, protected by their tariffs, made extraordinary progress in the era following the American Civil War and German unification.

American industrial expansion, though extraordinary, seemed less striking than that of Germany. The fixed steam power of that country had been extremely modest in 1850—perhaps 40,000 HP in all, much less than 10 percent of the

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British. By 1870 it was 900,000 hp or about the same as the British . . . far out-distancing France. . . . The industrialization of Germany was a major historical fact. Quite apart from its economic significance, its political implications were far-reaching. In 1850, the German federation had about as many inhabitants as France, but incomparably less industrial capacity. By 1871, a united German empire was already somewhat more populous than France, but very much more powerful industrially.⁴⁷

On July 19, 1870, eight years after Bismarck's iron and blood speech and four years after defeating Austria, Prussia attacked France in a campaign which consolidated Prussia's position as the pre-eminent power on the continent. Paris fell on January 28, 1871, ten days after the German states proclaimed the Prussian king, Wilhelm I Kaiser of the German empire uniting the German principalities which were the heirs of the Holy Roman Empire for the first time as a nation state under Prussian auspices.⁴⁸

When Bismarck and Wilhelm I arrived in Paris to sign the Peace Treaty, they stayed at Ferrieres, James Rothschild's country estate outside Paris. "Here I sit under a picture of old Rothschild and his family," Bismarck wrote to his wife, "Negotiations of every sort hang on to my coat-tails like Jews round a market trader."⁴⁹ The "fairylake" palace of the French "Juden-koenig" James Rothschild was a "revelation" to both men.⁵⁰ "Folk like us can't rise to this," the Kaiser remarked. "Only a Rothschild can rise to this." The ubiquitous display of the initials JR throughout Ferrieres prompted the German delegation to translate them as "Judeorum Rex," to general amusement. Bismarck seems to have taken "an especially malicious pleasure" in despoiling Rothschild's wine cellar and shooting his pheasants, or attempting to shoot them. Trying to assess the damage the Prussians inflicted on Ferrieres, Anthony was relieved to report, "There is not the least damage either to the House [or] the park [or] the trees, there are as many pheasants in the Park as formerly . . . they ought to thank God that they got off so well."⁵¹

The Rothschilds had more important things than the well-being of their pheasants to worry about. Alphonse was convinced that the French defeat would lead to "revolutionary movements,"⁵² and there was the not unrelated issue of the reparations payments. The French reparations payments were, "quite simply, the biggest financial operation of the century, and arguably the Rothschild's crowning achievement" as international financiers.⁵³ Between June 1871 and September 1873, France paid Germany 4,993 million francs, around 8 percent of its gross domestic product in the first year and 13 percent in the second. Since the Germans insisted on being paid in coin, the sheer logistics of the transfer were daunting.⁵⁴ Brokering the deal was a financial coup for the House of Rothschild, because it cut German bankers out of the deal, but it carried with it the "immense risk to become identified with paying such large sums of money to Berlin,"⁵⁵ which gave rise to a wave of anti-Semitism which swept over France during the

last quarter of the 19th century.

As Anthony predicted, the payment of reparations led to the collapse of the French government between March and May 1871. Once again revolutionaries took to the streets of Paris, "just as preparations were underway for the payment of the first installment of the indemnity."⁵⁶ Blanqui emerged from hiding and the workers manned the barricades in Paris, but even if it brought revolutionary struggle out in the open, the Franco-Prussian war caused a crisis in the International when it became clear that most workers identified with their respective nations. Lassalle was right, and both Marx and Bakunin were wrong in reading the collective mind of Europe's working class. When Bebel made a speech in the German Reichstag claiming that the German Social Democrats stood in solidarity with the Paris communards, Bismarck responded by attacking the International while implementing social reforms taken from the socialist agenda which took the wind out of their sails when it came to their ability to organize. The French Prime Minister Thiers mounted his own attack on the International in France, by enacting laws which "completely paralyzed the French working class, which had already been weakened to the point of utter exhaustion by the fearful blood-letting of the Versailles massacres."⁵⁷ In the face of setbacks like this, Marx began to lose confidence in the General Council, the International's governing body. After the failure of the Paris Commune in 1871, the International began to lose adherents in England, Germany, and France.

As if that weren't bad enough, Bakunin, who felt that the revolutionary moment had finally arrived and rushed off to Paris to be a part of it, had to watch his dream fail just as he had watched it fail in Dresden in 1849. This time Bakunin held Marx responsible for the failure of the revolution, claiming that Marx's revolutionary propaganda was responsible for the indecisive attitude of the proletariat. That failure combined with Bakunin's increasingly desperate economic situation left him "deeply depressed."⁵⁸

Then to make a bad situation worse, Bakunin got caught up in the Netchayeff affair. Netchayeff showed up in the Geneva in the spring of 1869, claiming to have escaped from the fortress of Sts. Peter and Paul in St. Petersburg, which assured him a warm reception from fellow Sts. Peter and Paul alumnus Bakunin. He also claimed to represent a committee which was then preparing the way for the violent overthrow of the Czarist government in Russia. Both claims were pure inventions on Netchayeff's part,⁵⁹ but Bakunin was taken in by them and immediately placed himself at the disposal of this imaginary revolutionary committee, which transmitted its orders through Netchayeff. Bakunin responded to the call by writing pamphlets which called for mutiny in the Russian army, banditry, and various grisly excesses of the sort which Netchayeff had described in his revolution-

ary catechism.⁶⁰

Bakunin's name helped enormously in recruiting young Russian radicals, but when one by the name of Ivanov questioned the existence of the committee that was supposedly giving Bakunin his orders, Netchayeff had him murdered. Numerous revolutionaries were arrested in the wake of Ivanov's murder, but Netchayeff, who slipped across the border just in time to escape the arrests, was not one of them.

Marx heard about the affair in July, 1870 from an irreproachable source who during his stay in Geneva in May had vainly tried to convince Bakunin that no such "committee" existed in Russia, that Netchayeff had never been a prisoner in St. Peter-Paul, and that the throttling of Ivanov had been an utterly senseless murder:

Both Bakunin and Netchayeff were accused by the General Council of the International of having sent innocent persons to their deaths in Russia by sending them letters, material or telegrams which drew them to the attention of the Russian police, although Bakunin's reputation might reasonably have been expected to protect him from such accusations. After his exposure Netchayeff admitted the real state of affairs. He acknowledged openly and with the utmost impudence that it was his custom to compromise deliberately all those who were not completely in agreement with him, in order either to destroy them or to draw them into the movement completely. In accordance with the same reprehensible principles he would, in a moment of excitement, persuade people to sign compromising declarations, or he would steal compromising letters in order afterwards to be able to exercise extortionate pressure on their authors.⁶¹

The proceedings in the so-called Netchayeff trial opened in St. Petersburg in July, 1871. There were over 80 accused, most of them students, and the majority of them were sentenced to long terms of imprisonment or to forced labour in the Siberian mines. Netchayeff himself was still at liberty, and he remained variously in Switzerland, London and Paris, where he went through the siege and the Commune. He fell into the hands of the police only in the autumn of 1872 after an informant turned him in.⁶² Netchayeff eventually went on trial, was convicted and sentenced to hard labor in the mines of Siberia, where he died. By the time the affair was over, the denunciation of Bakunin combined with the effects of government repression in France, England, and Germany, combined with devastating competition from national workers' unions, led to the collapse of the International in 1872. Marx and Engels tried to blame the collapse on "the machinations of one single demagogue,"⁶³ a lapse into individualism which undermined the whole concept of the proletariat as the avant garde of inexorable historical forces.

After the Treaty of Frankfurt ending the war was signed on May 10, 1871, the money from the French reparations payments flowed into the German economy, which began to overheat as too much money began seeking

too few German investment opportunities: "Never was economic euphoria among businessmen higher than in the early 1870s, the famous *Gruenderjahre* . . . in Germany, the era when the most absurd and obviously fraudulent company prospectus found unlimited sucker money for its promises."⁶⁴ Euphoria over the military victory against France in 1871 and the influx of capital from the payment by France of war reparations fueled stock market speculation in railways, factories, docks, steamships, the same industrial branches that expanded unsustainably in the United States.⁶⁵ The man of the hour at the moment of unification was Bethel Henry Strousberg, the Jewish railroad magnate who was the chief financier behind the expansion of the German railroad network.

After the successful conclusion of the Peace of Frankfurt, French reparations payments amounting to 5 billion francs (or 4.5 billion gold marks) poured into Germany, and out of that sum roughly 2.5 to 3 billion francs ended up in the banks and stock exchange which made up Germany's capital market. Because Germany had been in a continual state of war from 1864 to 1871, consumer demand among the civilian population exploded creating a boom that compensated for the drop in military spending. The creation of a huge new market as a result of German unification also contributed to the boom. To complicate matters further, the rules governing initial stock offerings had been loosened from their previous strictness, allowing the founding of 928 privately owned companies from 1871 to 1873 in Prussia alone. In addition, 61 new banks came into existence as more and more private capital poured into the economy, which exploded as a result. As stocks rose in value, confidence in the market grew, creating new IPOs. At this point the speculators took over the stock market, which drove the speculation mania to even greater heights, which caused the normal restraints that governed serious financing to be abandoned. The short-term credit which financed the boom was no longer backed by any real assets, nor did anyone think that it needed to be because the general opinion was that the banks would always have ever more capital at their disposal. This led to over production and overcapacity, which soon outstripped demand. Consequently, the stocks which fueled the boom were overvalued.

Blocked from finding an adequate outlet in the Germany economy, the German reparations payments began looking for investment opportunities abroad, something that was made immeasurably easier when Bismarck, on November 23, 1871, discontinued the coining of the silver Thaler and placed Germany on the gold standard.

After creating the boom in Germany, the German indemnity then overflowed into Austria, where it created "a bubble of false expansion, insolvencies and dishonest manipulations."⁶⁶ The main cause of that bubble was the inflow of German capital, which had been made available by the

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reparations payments which accrued to the newly founded German Reich after their defeat of France.⁶⁷ Collaborating with the government, the Austrian press promoted laissez-faire policies which broke down the traditional restraints on investment and allowed mortgage banks to issue letters of credit based on non-existent houses and the purchase of stock on margins that fueled the speculative bubble.

After Germany stopped minting silver Thaler coins in 1871, the consequent reduction in the demand for silver caused the economy to contract in the United States, where much of the silver was mined. That contraction in turn burst the speculative railroad bubble and set in motion events which would bring about the Panic of 1873.⁶⁸

As in Austria, German money flowed into the United States as a result of the confluence of the railroad boom which followed the Civil War as an investment opportunity and the French indemnity payment as money seeking an investment outlet. A crucial figure in this regard was Jay Cooke, one of main financiers of the Union army during America's Civil War, who had made contacts with London banks during the 1860s. But most of the railroad money came from Germany and the German reparations payments:

German investors played a particularly large role in financing American railroads—and in instigating the panic. The German appetite for American railroad securities increased in the mid-1860s after the United States emerged from civil war, and indemnity payments from France after the Franco-Prussian War (1870–1871) further swelled the German capital available for overseas investment.⁶⁹

The main reason Bismarck put Germany on the gold standard was to facilitate the exportation of excess capital. To gain easy access to that money, the Americans had to do the same thing. The financial interests which dominated the US Congress as a result forced passage of the Coinage Act of 1873, which put the US on the gold standard, to get access to that money. Bismarck's decision, in other words, not only put Germany on the gold standard, it forced the United States to go on it as well, "which meant that it would no longer buy silver at a statutory price."⁷⁰ The Coinage Act of 1873 reduced the demand for silver, depressing silver prices, and thereby reducing the domestic money supply. The subsequent deflation raised interest rates, which made it virtually impossible for indebted farmers, who began referring to the coinage act as "The Crime of '73," and anyone else in debt to repay their loans. Given the deflationary effect that the Coinage Act of 1873 had on the money supply, demand contracted suddenly in 1873 and stock prices declined as well.

On May 5, 1873 stock prices plummeted for the Franko-Ungarische Bank in Pest.⁷¹ On May 9, 1873, the bubble finally burst and the Vienna Stock Exchange crashed. Coming two years after the founding of the Ger-

man Empire, the panic of 1873 became known as the *Gründerkrach* or "founders' crash." Otherwise known as the *Gründerkrise* or "founders' crisis," the crash of 1873 was the result of an overheating of the economy which was hastened by a number of factors, but the most immediate and obvious was Prussia's victory over France, which led to reparations payments and the unification of Germany.⁷²

In September 1873, the American economy entered a crisis when Jay Cooke & Company failed to obtain a \$300 million dollar government loan to finance the nation's second transcontinental railway, known as the Northern Pacific. Putting America on the gold standard had created a situation in which currency was contracting at the same time that business was expanding:

Paper money had depreciated, and the conditions foreboded a crash. The Jay Cooke firm stood at the head of the great banking concerns. This house had handled most of the government loans during the war, and as already stated, were financing the doubtful Northern Pacific scheme. When this firm broke, strong institutions tottered and thousands of people in every rank of life were stricken with absolute ruin or sufferings that were none the less poignant for being outside the category of direct financial failures. The blow was felt for years in impaired credit, pressure for payment of dues, the lowering of securities and general dread of even safe enterprises. United States bonds fell from five to ten per cent. Savings were exhausted and many banks went under. Labor felt the cruel stroke for long after in the shutting down of factories and the half-time employment. The country was in a state of alarm and disgust at the bitter consequences of questionable acts in Congress, by the Administration, and in the realm of finance, and its indignant resolve to change things for the better was expressed in the heated contest which replaced the Grant administration with that of President Hayes, in 1876.⁷³

The failure of Jay Cooke & Company set off a chain reaction of bank failures and temporarily closed the New York stock market. Factories began to lay off workers as the United States slipped into depression. Conforming to standard capitalist business practice, employers cut wages, further deepening the depression. The workers retaliated by calling strikes, the most famous of which was the Great Railroad Strike of 1877, which prevented trains from moving in Pennsylvania and paralyzed the great railway hub of Chicago.⁷⁴

Marx and Engels' proposal to move the headquarters of the International to New York now seemed prophetic, but Engels was forced to concede in 1874 that the International had outlived its usefulness.⁷⁵ "A general defeat of the working-class movement such as was suffered in the period from 1849 to 1864 will be necessary before a new international, an alliance of all proletarian parties in all countries, along the lines of the old one can come into being. At present the proletarian world is too big and too dif-

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fuse." Engels consoled himself with the fact that for ten years the International had dominated European history in the interests of the future and that it could look back with pride on its work.

In 1878, Marx attacked the contention in an English journal that the International had been a failure and was now dead, but as if to prove the journalist right, the last hours of the last day of the 1872 Hague congress were taken up with the report of the committee of five on Bakunin and the Alliance and ended up expelling Bakunin from the International. The First International for all practical purposes ceased to exist with the congress which expelled Bakunin. Marx and Engels tried to move the General Council to New York, but their effort not only failed to establish a presence in the New World, it also "exercised the worst effect on the movement in England." Bakunin hastened his own death on the 1st of July, 1876 in Berne by refusing all nourishment.

Bismarck abandoned the *Kulturkampf* in 1878 to preserve his remaining political capital; indeed, he needed the Centre Party votes in his new battle against socialism. Pius IX died that same year, replaced by a more pragmatic Pope Leo XIII, who negotiated away most of the anti-Catholic laws. During the 1880s, Bismarck instituted social insurance programs, which included old age pensions, accident insurance, medical care and unemployment insurance, which became the basis of the modern welfare state.⁷⁶ His implementation of the suggestions of both Catholics and Socialists removed the political opposition of both groups. Bismarck met a number of times with both Lassalle and Bishop von Ketteler. In a speech on March 20, 1884, Bismarck claimed that:

The real grievance of the worker is the insecurity of his existence; he is not sure that he will always have work, he is not sure that he will always be healthy, and he foresees that he will one day be old and unfit to work. If he falls into poverty, even if only through a prolonged illness, he is then completely helpless, left to his own devices, and society does not currently recognize any real obligation towards him beyond the usual help for the poor, even if he has been working all the time ever so faithfully and diligently. The usual help for the poor, however, leaves a lot to be desired, especially in large cities, where it is very much worse than in the country.⁷⁷

This passage could have been taken from Ketteler's book *Die Arbeiterfrage und das Christentum*, and it shows Bismarck's genius as a practical politician who was willing to adopt the policies of people he once considered his enemies. Bismarck's political genius can also be seen in the fact that his social reforms arrived when:

The Great Depression of 1873 to 1896 destroyed the foundations of mid-19th century liberalism which seemed to be so firmly established. . . . "Since the stock market collapse of 1873 . . . the word 'crisis' has constantly, with only brief interruptions been in everyone's mind." And this is Germany, the country whose

economic growth during this period continued to be quite spectacular.⁷⁸

One of the main consequences of the crash of 1873 was the death of classical, laissez-faire liberal economics in the German-speaking world. Free trade died a quick painful death, followed by the erection of tariff barriers.⁷⁹

Another consequence was the rise of anti-Semitism. In March 1866, Alphonse Rothschild was asked by a friend after dinner "why, when he was so rich, he worked like a negro to become more so. 'Ah!' he replied. 'You don't know the pleasure of feeling heaps of Christians under one's boots.'"⁸⁰ In the aftermath of the Crash of 1873, it was becoming clear that the Christians were becoming tired of being walked on by the boots of rich Jews like the Rothschilds. Natty feared that the reaction would arrive first in Austria, and he was right because:

It was in the years after the 1873 Vienna stock market crash that Karl Lueger conceived his "Christian Social" campaign against Jewish financial power. A turning point in this campaign was Lueger's call in 1884 for the nationalization of the Rothschild-owned Kaiser-Ferdinand-Nordbahn when the government proposed renewing the original charter granted to Salomon in 1836. Lueger's demand that the government pay "attention for once to the voice of the people instead of the voices of the Rothschilds"⁸¹

Something new was afoot. After almost a century of revolution, capitalism and the concomitant secularization that accompanied both, the generation which had come of age during the Revolution of 1848 was just as convinced of Jewish malfeasance as their grandfathers had been, but they were no longer convinced that religion provided the best explanation of Jewish behavior. As a result:

The late 19th century saw the transformation of what had previously been an incoherent and politically heterogeneous prejudice against Jews . . . into something more like organized political movements. It is no coincidence that the term "anti-Semitism" itself dates from this period: racial theories were developing which purported to explain the supposed anti-social behaviour of Jews in terms of their genes rather than their religion.⁸²

The main architect of this intellectual transformation was Wilhelm Marr.

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Chapter Eighty-Four

The Populist Rebellion

Four years after the passage of the Fourth Coinage Act, and one year after the founding of the Greenback Party, political and economic rebellion broke out in Texas. In September 1877 a group of Texas farmers from Lampasas County who had grown desperate as the bottom inexplicably and inexorably dropped out of commodity prices united to form the Knights of Reliance.¹ By 1878 the Knights of Reliance was on its way to becoming a state-wide organization first known as the Grand State Farmers' Alliance and then simply The Farmers Alliance.

The rebellion broke out in Texas because Texas had become the home of hundreds of thousands of refugees from the old South who, in the aftermath of the Civil War, had fallen into the clutches of the most vicious form of Capitalism, the bondage to usury-based agriculture known as the crop lien system. Under this system, a farmer would borrow money for expenses based on expected returns on his harvest from a local retailer known as a furnishing merchant, who also weighed and purchased his crop. At the end of the year, the hapless farmer invariably learned that the money he owed the furnishing merchant exceeded the money he had earned from his crop. This devastating news was instantly ameliorated by the willingness of the furnishing merchant to extend credit to the farmer for yet another year. Once the new lien was signed, the farmer returned home, as the song put it, "another day older and deeper in debt."²

The South had become, in the words of one historian, a "giant pawn shop."³ The pawn shop was known as the crop-lien system. "Across the cotton states, small farmers existed in a state of virtual peonage, their everyday lives held in bondage by the crop-lien system, an American version of the medieval usurer,"⁴ who would exact interest at 100 percent per annum in an economy where prices for crops dropped every year. To give some indication of the farmers' plight: "The Southern cotton crop of 8.6 million bales in 1890 brought \$429.7 million to the farmers; the next year's crop, 9.0 million bales, brought only \$391.5 million—a decrease of \$38.2 million despite an increase in production."⁵

The drop in price was not limited to cotton or the South. Farm prices fell in the North as well, inexorably, year after year. The bushel of wheat which had earned a farmer over \$2 immediately after the Civil War earned less than 20 percent of that amount by the 1890s.⁶ The results of this decline were both cruel and inexorable. Caught between falling prices and rising, usurious interest rates, the farmer inevitably fell behind in his payments,

Barren Metal

forfeited the title of his farm, and “descended into the world of landless tenantry.”⁷ The damage inflicted by “usurious lending” also “afflicted the farmers in the Middle West,” who were told

that the only way to maintain their income levels was to increase their efficiency—to produce greater yields from the same land and labor. The new machines they purchased on credit typically carried annual interest rates of 18 to 36 percent—chattel mortgages they would have to pay off in steadily appreciating dollars. When the farmers went to ship their grain, the railroad squeezed them even further with arbitrary freight rates.⁸

The people who ran the pawn shop were known as “furnishing merchants,” a euphemism, as William Faulkner had pointed out in *The Hamlet*, for usurer, and more often than not, as Faulkner failed to mention, a euphemism for Jewish usurer as well. Jewish families like the Seligmans and the Lehmans descended on the South after its defeat and ran the general stores that were the backbone of the crop lien system in the South. When the planters showed themselves incapable of running the general stores that had “captured the business of the sharecroppers,” the Jewish furnishing merchants, “who supplied merchandise in exchange for promises, secured by crop liens, to deliver cotton to the storekeeper,” stepped in and took their place.⁹ The Lehmans lived in the South for less than 20 years, but the system they helped established lived on long after their departure for New York, where they became investment bankers with the money they had earned through brokering and usury in the South:

The Lehman firm in New Orleans played a major role in the postbellum economy by 1) supplying cotton growers directly with merchandise; 2) supplying the “furnishing merchants” who traded with the growers; and 3) using funds from New York to buy cotton on the open market in New Orleans or from inland points in Louisiana, Mississippi, Texas, or Arkansas.¹⁰

The furnishing merchants, who were able to get most of their goods on consignment from Northern mercantile houses, bought supplies and “furnished” them on credit to farmers, taking a lien on the farmer’s crop for security. Most of the merchants who supplied the goods for the furnishing merchants were Jewish, as were the furnishing merchants themselves. The Jewish furnishing merchants would then sell the cotton they had bought from the farmers to the Lehmans in New Orleans, who would then sell it to cotton manufacturers in England. The number of Jews associated with the Lehman operation in the post-Reconstruction South was “too great to ignore when considering community development in the South in the period following the Civil War.”¹¹ The Lehmans, according to Ashkenazi:

provided a secure outlet for cotton to untold numbers of Jewish merchants throughout the region who therefore could stabilize their own businesses. Records of Lehman Bros. also show that the New Orleans firm brought up nu-

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merous plantations and country stores, sometimes when their owners could not meet their obligations. Those in trouble were generally allowed to remain in possession and work to pay off their debts.¹²

The agriculture situation in the postbellum South had uncanny similarities with the plight of the farmer in post-revolutionary 19th century Europe. In Hungary before the Revolution of 1848:

there was great prosperity and security among the rural population being protected by a feudal constitution. The land was mostly held on a tenure of service (tilling the lord's soil); the peasant's holding was not divisible beyond a certain limit . . . no mortgaging was possible. By the changes that followed the troubles of 1848, completed after 1866 [viz., the Liberal movement and revolution under Kossuth], the peasants, now become independent proprietors, were left defenceless, and a swarm of Jewish usurers descended upon them, and filled the land with desolation and woe.¹³

The same description applied, *mutatis mutandis*, to the postbellum South. During the Reconstruction era, a "swarm of Jewish usurers" descended upon the South, which, deprived of its feudal plantation system, now offered, in Ashkenazi's words, "unusual economic opportunities that could be exploited because of the presence of people like the Lehman and the Seligmans."¹⁴

Missing from Ashkenazi's account is the price that the impoverished farmers had to pay for the furnishing merchant's services: "Farmers learned that the interest they were paying on everything they consumed limited their lives in a new and terrible way; the rates imposed were frequently in excess of 100 percent annually, sometimes over 200 percent."¹⁵

Faced with a choice between a landless tenantry which was little more than slavery and emigration, huge numbers of southern farmers chose to move west. During virtually every year of the 1870s, roughly 100,000 southern farmers handed the deed of their property to the furnishing merchant, pulled up stakes, and left for Texas. The occurrence became so common that an abbreviation scrawled over a door-jam—G.T.T., i.e., gone to Texas—was all that was necessary to describe what had happened.

By 1890 the refugees from the crop lien system of the old South who had found a new home in Texas gave birth to "an energetic and angry national movement"¹⁶ known as Populism. Populism would become a source of reform legislation for the next 50 years. It planted the seed for "a progressive income tax; federal regulation of railroads, communications and other corporations; legal rights for labor unions, government price stabilization and credit programs for farmers,"¹⁷ but the main issue which consumed the Populist movement was money. Having fled the usury-ridden crop lien system of the Old South, the Populists of Texas had learned to question the United States monetary system, in particular the return to the gold stan-

dard and the subsequent deflation which it had brought about. That corrupt system, even more than Reconstruction, had put the usurers in charge of Southern agriculture and had driven them from their ancestral homes.

The Farmers Alliance eventually created a speaker's bureau, which fanned out across the state and explained to Texas farmers that "the source of their ruination . . . was the gold standard and the private banking system that enforced its rigid terms."¹⁸ The falling prices which caused the farmers to redouble their efforts in a losing battle to pay off their debts did not come about because of some act of nature, as the propagandists for the gold standard liked to claim, but rather as a deliberate, if hidden, decision that the creditor class would prosper at the expense of those who "still earned their livings by the 'sweat of their brow.'"¹⁹

Greider claims that the main legacy of the Populist movement was "an audacious redefinition of money—money was a contract with the future, not an obligation to the past,"²⁰ but the core issue at the heart of the strife of the 1890s was not new. It was in essence the same issue which had motivated Shays Rebellion after the Revolutionary War. Would the nation's monetary system be created solely with the interests of the creditor class in mind? That was the essence of the gold standard, which was one more pseudo-scientific, Newtonian self-regulating system designed to obfuscate the machinations of those who benefited from hard money at the expense of labor. The gold standard never delivered on its promise to provide price stability, but it was ruthlessly effective in deflating the economy. In fact, "By 1884, the national price level declined to exactly where it had been in 1860"²¹ in spite of over a quarter of a century of increased production and efficiency.

By 1886 the Texas farmers had had enough. In August 1886 The Farmers Alliance met in Cleburne, Texas and issued a program of financial reform known as "The Cleburne Demands," one of which adopted the easy money policies of the Greenback Party and made them part of the Populist platform: "The new 'greenbacks' that the Populists proposed would provide the nation with a flexible money supply, one that could expand or shrink by government management to meet the real credit needs of the marketplace. The Populists' aim was frankly inflationist."²² The Populists also demanded that the US Treasury issue money directly into the economy as "legal tender for all debts, public and private," a phrase adopted by the Federal Reserve System after its creation in 1913. In addition, "the nation must abandon the gold standard and move to a fiat currency of Treasury notes, a flexible money supply that would respond to seasonal surges in the demand for credit."²³ The Populists' ultimate goal was a money supply controlled by elected representatives of the people and not by "an oligarchy of financiers."²⁴

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In the wake of the Cleburne Demands, Dr. Charles W. Macune emerged as the chief economic theorist of the Populist movement. Born in Wisconsin in 1851 and orphaned at the age of 10, Macune arrived in Texas in 1870, where he studied law and medicine and became involved with the Farmers Alliance as one of its main organizers and source of economic alternatives to the system that was bankrupting them. In January 1887, less than six months after the Cleburne Demands, Macune came up with the idea of a statewide cooperative which would centralize the marketing of the Texas cotton crop and simultaneously serve as a consumers union for the cotton farmers.²⁵ Texas farmers could store their crop in cooperative warehouses until prices rose, and because of their unity, they found themselves in a better position to negotiate favorable rates with the railroads and wholesalers.

As a result of Macune's initial successes in organizing the Texas cotton growers, the Alliance "swept across Mississippi like a cyclone,"²⁶ and branches of the Alliance sprang up in virtually every county of the Old Confederacy,²⁷ leading Macune to believe that he could "organize the cotton belt of the nation."²⁸ Energized by Macune's organizational genius, farmers began making other demands. In February 1889, farmers belonging to the Harper County Alliance demanded reform of usury laws from the state legislature.²⁹

The crucial issue that farmers faced each year was credit. To meet that need, the Texas Exchange proposed the "joint note plan" in November 1887.³⁰ According to that plan, farmers were asked to place their farms as collateral at the disposal of the Alliance cooperative. They could then purchase a year of supplies from the state exchange on credit, eliminating the need to go to the furnishing agents or the local banks in Texas which would often refuse to extend them credit because of risk or because the money wasn't available from the eastern banks. Because it was purchasing large quantities of supplies, the exchange could demand prices from the wholesalers that were unavailable to individual farmers. The Exchange, in other words, assumed the role which the furnishing merchants had arrogated to themselves after the collapse of the plantation system, but without the usury which was an intrinsic part of the crop lien system.

In order to make the system work, Macune had to find bankers willing to lend him money on the collateral which the farmers of the exchange had provided. Since banks were in the business of lending money, the business end of the deal seemed fairly straight forward, but it wasn't. The bankers saw what the farmers were doing as a threat to their monopoly of the credit market and refused to deal with Macune. The bankers in Dallas turned him down cold, refusing to advance any loans. After canvassing banks across Texas, all Macune had to show for his efforts was one \$6,000 loan from a bank in Houston, forcing him to admit upon his return that "the

effort to borrow money in a sufficient quantity failed.”³¹

The alliance was now in serious trouble. The supplies which the Texas Exchange had purchased on credit for the state’s farmers had already been distributed; the bill was due in May, and the \$6,000 Macune had raised in Houston would not cover it. Faced with a boycott by the Texas bankers, Macune turned to the farmers themselves, and the \$80,000 in nickels and dimes they contributed in response to his appeal saved the Texas Exchange from immediate bankruptcy, but it did not solve the long term problem of access to adequate credit.

In the late summer of 1889, after almost two years of operation, the Texas Exchange, deprived of credit, finally had to close its doors. Macune’s failure to get credit for the exchange from Texas banks forced the organizers of the Texas Exchange to conclude that the problem lay with the way the nation created money, and that “the Alliance cooperative stood little chance of working unless fundamental changes were made in the American monetary system.”³²

After the failure of the Texas Exchange, Macune came up with an idea of how to reform the American monetary system that came to be known as the subtreasury plan. According to the plan he outlined in the pages of the *National Economist*, the journal Macune edited in Washington, D.C., the United States government would create a series of cooperatives which would issue greenbacks directly into the economy based on what the farmer produced:

Macune’s plan called for federal warehouses to be erected in every county in the nation that annually yielded over \$500,000 worth of agricultural produce. In these “sub-treasuries,” farmers could store their crops to await higher prices before selling. They were permitted to borrow up to 80 percent of the local market price upon storage, and could sell their sub-treasury “certificates of deposit” at the prevailing market price at any time of the year. Farmers were to pay interest at 2 percent per annum, plus small charges for grading, storage, and insurance. Wheat, corn, oats, barley, rye, rice, tobacco, cotton, wool and sugar were included under the marketing program.³³

According to Macune’s plan, the farmer would be paid in legal tender directly by the government. With this one bold stroke, Macune eliminated the banks as creators of the nation’s money supply. He also eliminated usury from the system. Instead of money as debt created by banks, the government created money directly “based on real production, the tangible goods in storage. In theory, when farmers repaid their loans, the currency would be paid back into the Treasury and extinguished, withdrawn from the circulating money supply—much as the Federal Reserve creates and destroys money through the medium of bank reserves and bank lending.”³⁴

Macune rehabilitated the role of the state in the economy and proposed

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state power as the antidote to the money trust. Macune's plan would have broken the back of the usurious crop lien system in the South by making the government, not the furnishing merchant, the source of agricultural credit. And if that news weren't bad enough to the usury class, that credit would have been based on what the nation actually produced instead of the amount of gold it could hoard. Macune's plan would have injected billions of dollars of currency into the economy at harvest time, which is exactly when credit was needed. It would have eliminated the chronic liquidity failures that were the obverse side of the gold standard coin. Macune's plan, finally, would have placed the economy in the service of the people, rather than subjecting the people to the economic hegemony of the usurers and gold hoarders. That meant that "the government would provide 'money at cost,' instead of money by merchants and bankers at 35 or 50 or 100 percent interest."³⁵

Macune unveiled his sub-treasury system at the St. Louis Populist convention in 1892. Ignatius Donnelly, the Minnesota populist who had become famous ten years earlier with the publication of his book *Atlantis: the Antediluvian World*, gave an overview of the economic situation in a keynote address that described a world that was uncannily similar to the situation in 2013, because the results of state-sponsored usury are always the same. Describing the usurious economy of his day, Donnelly complained that:

The newspapers are subsidized or muzzled; public opinion silenced; business prostrate, our homes covered with mortgages, labor impoverished, and the land concentrated in the hands of capitalists. The urban workmen are denied the right of organization for self-protection; imported pauperized labor beats down their wages; a hireling standing army, unrecognized by our laws is established to shoot them down, and they are rapidly disintegrating to European conditions. The fruits of toil of millions are boldly stolen to build up colossal fortunes, unprecedented in the history of the world, while their possessors despise the republic and endanger liberty.³⁶

Then as now, the two major political parties engaged in misdirection as the main device to keep the populace distracted with pseudo-issues so that "the oppression of usurers may be lost site of."³⁷

Donnelly's speech electrified his audience, but Macune's exposition of the sub-treasury plan left the same delegates underwhelmed. The same ideas that seemed so brilliant in his journal were not suitable material for political conventions, where slogans rather than ideas carried the day.

As if that weren't bad enough, the movement's most effective orator, L. L. Polk, died suddenly on June 11, 1892 at the age of 55, less than a month before the beginning of the Omaha convention which would correspond to the high water mark of Populist influence in American political life. As

a result, the Populist movement lost two of its most important leaders just as its political party was reaching the apogee of its power and influence. Charles Macune "suddenly and permanently"³⁸ dropped out of the movement after the disappointing response to his subtreasury plan at the St. Louis convention just as the Populist movement was moving to its climactic phase. Eventually Macune would abandon medicine, the law, politics and economics and return to Waco, where he became a Methodist pastor and spent the rest of his life "ministering to the agrarian poor."³⁹

The loss of L. L. Polk was just as serious. Polk was not Macune's equal when it came to economic theory, but he was a skilled orator and a powerful force for unity in a nation deliberately polarized by the usury class along sectional lines. Polk was a Confederate veteran who could appeal to the class interests of Northern farmers. By marshalling cogent economic arguments he could wean the laboring classes away from the sectional prejudices that deprived them of their political power. Polk claimed that "the gigantic struggle of today" was "not the war of 25 years ago,"⁴⁰ but the conflict "between the classes and the masses," and he made that claim in rhetoric that was persuasive not only to the "overwhelmingly Republican Kansas and Iowa . . . farmers" who "normally preferred the bloody shirt" but also to the farmers of "overwhelmingly Democratic Arkansas and Texas" who normally "preferred the 'party of the fathers.'"⁴¹

Uniting farmers from the North and South was only the beginning of a long uphill battle for the American mind. Then as now the usurer class turned both the press and academe into paid advocates of "sound money." *The New York Times* referred to Macune's sub-treasury plan, "one of the boldest and most imaginative economic ideas suggested in 19th century America,"⁴² as "'one of the wildest and most fantastic projects ever seriously proposed by a sober man.'"⁴³ In order to evade the intellectual lock that the usurer class had on the choke points of American culture, the Farmers Alliance would have to organize the masses, and to do that they would have to unite farmer and factory worker in a coalition of the laboring classes that contradicted the ethnic realities of American life.

The Farmers Alliance was essentially a Protestant rural movement from the South. As such, Texas farmers could unite with, say, Texas railroad workers, but there were no factories to speak of in Texas, and the laborers in the factories of the North spoke a different language in both the figurative and oftentimes the literal sense of that term. If the Populist Party which grew out of the Farmers Alliance aspired to include factory labor in its coalition, then the Protestant agrarian organizers who had been so successful in the Old Confederacy would have to learn how to speak to the Irish Catholic factory workers of Boston, the Germans of Pennsylvania's cities, and Slavic steelworkers in Pittsburgh, as well as black sharecroppers

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in South Carolina. A "farmer-labor coalition of the plain people" involved an enormous cultural challenge to a group of people immured willy nilly in one of many enclaves of ethnic isolation that made up the cultural archipelago known as the United States. In many respects, the only trans-ethnic *lingua franca* in the United States was the language of Anglophile Liberalism, the voice of laissez-faire state-sponsored usury that the American Whigs had cemented into the constitution of the United States at its founding. Unity among laborers might be an attainable objective in certain homogeneous locales in the West. But the same could scarcely be said for the prospects of recruiting a Slavic steelworker in Pittsburgh, a "patriotic" Republican farmer in Michigan, or a black sharecropper in South Carolina to form a united political party. Goodwyn sums up the situation when he writes that "In 1892, the prospects of urban Populism could be summarized in one sentence: The Alliance organizers looked at urban workers and simply did not know what to say to them—other than to repeat the language of the Omaha Platform."⁴⁴ Clearly something more was needed, but "the People's Party possessed few institutional means to attract the "industrial millions."⁴⁵

Rerum Novarum appeared in 1891, one year before the Omaha Platform. Because it condemned "rapacious usury" and endorsed labor as the source of all value, when Leo XIII wrote: "hence, it may truly be said that all human subsistence is derived either from labor on one's own land, or from some toil, some calling, which is paid for either in the produce of the land itself, or in that which is exchanged for what the land brings forth,"⁴⁶ *Rerum Novarum* was compatible with the Omaha Platform demands and could have provided the intellectual basis for a "farmer-labor coalition of the plain people." Beyond that, it could have provided the philosophical framework which would have allowed Populism to expand intellectually beyond the *ad hoc* demands of Texas farmers as put forth in things like the Cleburne Demands. Unfortunately, in addition to the ethnic differences dividing them, the nation's farmers and factory workers were hopelessly out of sync in their respective stages of development. When the farmers reached the apogee of their influence, at the People's Party convention in Omaha in 1892, the factory workers lacked any effective way of dealing with the lockout and the factory owners' importation of scabs any time they went on strike. By the time American industrial workers finally found the antidote to strikebreaking scab labor in the sit-down strike in the 1930s, the Populist movement was nothing more than a distant memory. By then: "a sizeable proportion of America's industrial poor had been levered off the land and millions more had descended into numbing helplessness after generations of tenantry. Thus, when the labor movement was ready, the mass of farmers no longer were."⁴⁷

Unlike the Socialists, who lacked “domestic cultural credentials,” the Populists were “the last American reformers with authentic cultural credentials to solicit mass support for the idea of achieving the democratic organization of an industrialized society.”⁴⁸ *Rerum Novarum* could have provided the *lingua franca* that would have allowed Texas farmers to talk to Irish and Polish Catholic factory workers, but the fact that Goodwyn does not mention it means that it is *a fortiori* certain that Populists like Georgia’s Tom Watson had never heard of it either. It is doubtful whether Watson, who famously referred to the pope as “a dago in a dress,” would have been able to digest what Pope Leo XIII, the synthesizer of the German tradition on the workers question which he had inherited from Bishop von Ketteler, had to say.

As a result, when 1,400 Populist delegates descended on The Omaha Convention on July 4, 1892 to nominate the national standard bearer of the “new party of the industrial millions,”⁴⁹ they discovered that their movement was suddenly bereft of both its natural leaders and a philosophical framework that would allow them to reach out to the laboring masses of the North.

Four years later, abhorring the vacuum which Macune’s defection and Polk’s death had created, the Populists found their leader in William Jennings Bryan, a man whose intellectual shallowness and political opportunism combined to doom the Populist movement to an untimely and premature demise. Bryan was either unable to comprehend or unwilling to promote the idea that money was a creation of the state, which had the legal sovereignty to create it out of anything it wanted as long as it was deemed legal tender for all debts public and private. As a result, Bryan became an advocate of “free silver” as the solution to monetary crisis plaguing America’s laboring classes.

Bryan began espousing the cause of “free and unlimited coinage of silver” during his hotly contested re-election campaign of 1892. Bryan, who admitted in 1892 that he didn’t “know anything about free silver” but promised nonetheless to “look up the arguments [in favor of it] later,” chose silver as the middle path between greenbacks, which had earned the odium of the usury class and its lieutenants in the press and academe,⁵⁰ and gold, which the Republican portrayed as an “honest dollar,” thereby earning the odium of the laboring classes. Bryan’s speech in favor of silver in Congress in 1893 earned him the attention of the nation’s silver mine owners, who printed and distributed a million copies of his speech, guaranteeing him a national profile should he want to run for president.

When in 1893 America found herself plunged yet again into another recession caused by capital markets which had become inflexible because of their dependence on gold, the notion that silver coinage posed a sensible

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alternative began to gain political traction across the entire nation, much to the satisfaction of the silver mine owners. When the Populist Party did poorly in the general election of 1894, suffering unexpected losses in the West, national party chairman Herman Taubeneck of Illinois lost his political nerve and claimed that "the People's Party had to jettison the Omaha Platform and 'unite the reform forces of the nation' behind a platform of free silver."⁵¹ Free silver was at best a palliative and at worst an excuse for political opportunists to abandon the crusade for democratic money. Either way, it ended up destroying the Populist movement.⁵²

The campaign for free silver and the demise of Populism's demand for greenback money reached their simultaneous culmination when William Jennings Bryan delivered his "Cross of Gold" speech at the Democratic National Convention in Chicago on July 9, 1896.⁵³ In that speech, Bryan asked:

Upon which side will the Democratic Party fight; upon the side of "the idle holders of idle capital" or upon the side of "the struggling masses"? That is the question which the party must answer first, and then it must be answered by each individual hereafter. The sympathies of the Democratic Party, as shown by the platform, are on the side of the struggling masses, who have ever been the foundation of the Democratic Party.⁵⁴

When the Populists abandoned their own monetary principles and endorsed Bryan and his free silver plank as their candidate in 1896, "The agrarian revolt was over."⁵⁵ When Bryan lost to McKinley in the election of 1896, Populism was finished as a serious threat to the established order, and the "money question" passed out of American public life, never to return. Henry George is an example of an American writer at the time of considerable genius who was aware of the penury of the laboring classes, but unlike the Populists George was unable to trace that poverty to how the country created its money. George joined the discussion in 1879, just as the Populist movement was getting off the ground, with the publication of his bestseller *Progress and Poverty*, which sold over 3 million copies.⁵⁶ George ignored both usury and money and focused on rent, in particular rent on land as the source of the problem. Whenever land competed with labor, land invariably won. Because rent increased faster than wages, usurers were always willing to take land as security for their loans. What George failed to see is that over the long haul the usurers gobbled up the rent-earning landlords, as had happened across the South under the crop lien system. Once again, grassroots economic theory was out of sync with political power, and the Populists were without help in making their case about the nation's monetary system.

Following the collapse of the People's Party, the situation of American farmers worsened as "farm tenantry increased steadily and consistently, decade after decade."⁵⁷ The number of farmers who became sharecroppers

on the land they used to own increased from 25 percent in 1880 to 38 percent in 1910.⁵⁸ This decline in ownership was not limited to the South. By 1935, roughly 50 percent of Iowa's farmers had also become sharecroppers on the land that they used to own.⁵⁹ By 1940, the same was true of Kansas. The South, however, still retained the distinction of being the worst case in the usury-based agriculture scenario. By the mid-1930s, during the depths of the Great Depression, 70 percent of the farmers in the South were still under the heel of the furnishing merchants who ran the crop lien usury system.

If more and more farmers were falling into debt slavery, the opposite was happening in manufacturing. In spite of a chronically inadequate money supply, manufacturing was doing well, largely because by end of the first decade of the 20th century they were able to fund most of their capital expansion internally from profits, and what they couldn't fund from profits was provided by local Midwest banks. During the first decade of the 20th century: "70 percent of the new funds for manufacturing were generated internally."⁶⁰ Wall Street was becoming irrelevant to Midwest manufacturing.

After the collapse of the People's Party in 1896, relief from the devastating deflation which the gold standard had inflicted on American agriculture came, not as the result of economic reform, but because of "a fluke of history."⁶¹ Prices started rising because of a fortuitous increase in the money supply which came about because gold was discovered in Alaska and South Africa, but rising prices did not change the fundamental liquidity problem that lurked at the heart of the gold standard and threatened to burst into full blown panic and recession every time farmers arrived at the market and exerted their seasonal demands for credit. The gold standard had two structural rigidities which interacted with each other to create panic among those who had money deposited in banks or invested in stock. Immobile reserves could not be redirected quickly enough to the banks which needed them when panic threatened, but more importantly, the money supply was notoriously inelastic because it was tied to gold and, therefore, "unable to expand fast enough to supply seasonal surges in bank lending."⁶²

When an attempt to corner the market on stock of the United Copper Company failed in October 1907, the banks who had lent money to the speculators suffered runs from nervous depositors. These runs eventually brought down the Knickerbocker Trust Company, New York's third largest. The collapse of the Knickerbocker created bank runs throughout the rest of the country which eventually came to be known as The Panic of 1907.⁶³ Since the United States had no central bank which could serve as a lender of last resort in 1907, liquidity crises had to be dealt with by private

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bank consortia, and the man who organized these consortia in time of crisis was J. P. Morgan:

When the banking system was swept with panic and illiquidity, it was Morgan who organized the loan syndicates among the major banks that came to the rescue. Morgan and his men made the choices about which banks would be saved and which ones allowed to fail. . . . At his zenith, J.P. Morgan was so powerful that even the federal government came to him for help and he agreed to save it from impending financial ruin.⁶⁴

Whenever money was in the wrong place and needed to be moved to where it was needed, Morgan was in charge of redirecting it, by convincing fellow New York bankers to make the fortunes in their vaults available to banks in the South and West. When all these contingencies failed, a panic began. New York would begin saying no to requests from points west and somewhere in America banks would begin to fail, unable to meet loan commitments or to honor their depositors' withdrawals. When the word of a bank failure spread, depositors everywhere panicked. When the panic threatened to get out of control and bring down the entire financial system, it was the name J. P. Morgan and the virtually unlimited financial resources associated with that name that calmed the troubled seas and made the wind of panic die down.

By November, the Panic of 1907 was over, but the trauma which lingered on convinced the titans of the US banking system that the future of American financial capitalism "could no longer depend on the good offices of a few titans like Morgan. Money reform became not just an interesting ideal but a practical necessity."⁶⁵ The old financial order, run by family-owned private banking houses of the sort that the Rothschilds had pioneered in Europe at the conclusion of the Napoleonic Wars, was passing away. When J. P. Morgan died in 1912, *The Wall Street Journal* published an editorial which claimed that the "money trust" was "just another name for J. Pierpont Morgan."⁶⁶ Morgan could orchestrate "dazzling and ruthless manipulations in the stock market—cornering, crushing, swallowing their corporate prey," while at the same time serving as the lender of last resort who rescued the system from its own penchant for wretched excess in usurious lending in times of distress. Morgan was as good at starting panics as he was at ending them, but five years after the Panic of 1907 he was dead, and no one had stepped forward to take his place at the apex of American capitalism because, as the *Wall Street Journal* put it, "Such men have no successors."⁶⁷

In the decade before J. P. Morgan's death in 1912, the Populists abandoned their own leadership in the debate over monetary reform, and their place at the podium was taken by the bankers, who appropriated many of their proposals and refashioned them to suit their own interests.

After the Populists abandoned their own monetary program by endorsing free silver, the plutocrats called upon their professors to come up with an alternative plan, one that would safeguard the privileges of the usurers. In 1894, when Populist orators couldn't make up their minds whether to promote the sub-treasury plan or free silver, the American Bankers Association proposed the first version of what bankers regarded as reform—a new national currency, unconditionally guaranteed by the federal government, distributed by commercial banks.⁶⁸

Eventually, the usury class would turn to a professor from the economics department of the university which the Rockefellers had founded in Chicago to work out the details of their new plan. Long before it became the home of Milton Friedman and the “Chicago Boys,” the University of Chicago economics department provided a platform from which J. Laurence Laughlin could aspire to reform the nation's monetary system. After the financial panic of 1907 had convinced the usury class that it needed a more flexible currency, Laughlin became the nation's “foremost spokesman for ‘banking reform,’” and used that reputation to write the Federal Reserve Act, which was enacted into law in 1913.⁶⁹

The Wall Street Journal editorial was prescient when it claimed that men like J. P. Morgan had no successors. What replaced Morgan was not another Wall Street titan but the Federal Reserve System. One year after J. P. Morgan died, Congress passed the Federal Reserve Act and inaugurated a new era in American capitalism, the era of the central bank. On November 16, 1914, the Federal Reserve opened its doors and effectively replaced him by “other means.” The mantle of Morgan's private authority was inherited by the Fed.

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Chapter Eighty-Five

Wilhelm Marr Redefines the Jewish Question

The crash of 1873 was to prove unsettling in many ways, domestically as well as economically. In 1873 Wilhelm Marr, "the patriarch of anti-Semitism," divorced his first, half-Jewish wife to marry a pure-blooded Jewess, 17 years his junior. By the time he died in 1904 the founder of modern anti-Semitism would marry four times, three of his wives being Jewish.

Wilhelm Marr was, like Marx and Wagner, a man who never got over his participation in the Revolution of 1848. Born in 1819, he got swept up into the revolutionary movements that proliferated throughout Europe in the wake of the French Revolution of 1789. In fact it could be said that he had a hereditary predisposition toward revolution because Marr's father Heinrich, who would become one of the most famous actors in Germany and the first man to play Mephistopheles in Goethe's *Faust*, fought alongside his father, Wilhelm's grandfather, in the wars of liberation against the French invaders.¹ As another indication that the apple did not fall far from the tree, in 1851, when Marr was in his early thirties, his father wrote a play entitled *Der Boersenschwindel* (The Stock Market Swindle),² which connected Jews and financial malfeasance, themes which would become a staple of Wilhelm Marr's mature writing.

Marr's father guided his son in more practical ways as well. After moving to Vienna in 1831, where he found work as an actor at the Burg-theater, Heinrich used his connections to get Wilhelm jobs with two Jewish firms, neither of which ended happily.³ Wilhelm Marr worked for the Wertheimsteins, a family closely related to the Viennese branch of the Rothschild family.⁴ In an unpublished memoir entitled "Within Philo-Semitism," Wilhelm claimed that he had worked harder than any of the Jews at the Jewish firms but was nonetheless let go in 1841 because of purely racial reasons. The fact that the *goyim* had no chance of lasting, much less advancing in a Jewish firm, would later become symbolic of the position which Germans held in a Jewish controlled economy,⁵ something which became clear to more and more Germans after the Crash of 1873.⁶

The publicity which surrounded the Rothschild family after the crash of 1873 was a sign that the *Tarnhelm* had fallen from Alberich's head. Rothschild involvement in railroads had made them not only visible but representative of an entire class of scheming Jews who were using arcane financial tricks to loot the economies of every European country. This was the

thesis of Friedrich von Sherb's *History of the House of Rothschild*, which appeared in 1893, as well as the thesis of *The Frankfurt Jews and the Mulcting of the People's Wellbeing*, published by "Germanicus" in 1880.⁷ As late as 1911 Werner Sombart in his history of *Jews and Capitalism* claimed that "the name Rothschild" meant "more than the firm which bears it"; it meant "all the Jews who are active at the bourse. . . . the modern bourse is Rothschildian (and thus Jewish)."⁸

Marr's experiences in Vienna left him with a decided antipathy toward both Jews and Capitalism, which he conflated in his mind in much the same way that Marx, also under the influence of Bruno Bauer, would express in his 1844 essay on the Jewish question when he claimed that the Jewish religion was haggling and the Jewish god, money. Both Marx and Marr had fallen under the spell of Feuerbach's deconstruction of religion. One of Marr's most successful books was his popularization of Feuerbach's *The Religion of the Future*, which was an attack on "Christianity, the Christian society, and the conservative social order."⁹ Feuerbach's *The Essence of Christianity* expanded his attack on religion to include an attack on Judaism, which he criticized for its materialism and egotism in a way that Marr would echo in his own writings.¹⁰ Both Marx and Marr saw religion in general and Christianity and Judaism in particular as epiphenomenal manifestations of deeper forces which Marx saw as economic and Marr as racial or ethnic.

Disillusioned with Jewish Capitalism in Vienna, Marr moved to Switzerland, where he became part of the revolutionary ferment there and eventually one of the founding members of the Swiss branch of the secret revolutionary society known as "Junges Deutschland."¹¹ His involvement with secret revolutionary societies in Switzerland led to the publication in 1846 of one of his most popular books, *Das junge Deutschland in der Schweiz. Ein Beitrag zur Geschichte der geheimen Verbindungen unserer Tage*. During this period, Marr was influenced by Proudhon's book, *Qu'est ce que la Propriété?*, which claimed that property was theft. The solution was to expropriate the Jewish expropriators, or as he put it after the riots which broke out in June 1844 in the wake of the weavers' strike in Silesia: "The time is ripe to share Rothschild's property among 3,333,333 poor weavers, which will feed them during a whole year."¹²

In 1845, after being expelled from Lausanne, Marr ended up in Hamburg, where, as a political journalist, he lived through the Revolution of 1848. The prominent role he played in that revolution got him elected as a delegate to the short-lived National Assembly in Frankfurt.¹³ The Revolution of 1848 was the formative moment in his life because it turned him from a revolutionary optimist into a racial pessimist. After Prussia ended the revolution in Hamburg by sending troops there on August 13, 1849,

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a period of reaction set in during which the gains of the revolution were rolled back except for the "provisional ordinance" which guaranteed equal rights for the Jews.

The Jews, who had been the foremost proponents of revolution when they stood to gain from it, were the first to abandon it when it became clear that they could profit even more from the reaction against it. Disillusioned by the narrow, racial self-interest of his former revolutionary comrades in arms, Marr "concluded that the Jews had used the revolution for their own purposes, betraying it when they no longer needed it! . . . It is a fact that most of the Jews have left us entrapped . . . after having obtained emancipation for themselves."⁴ The source of the Jewish problem, according to Marr, was Jewish money, which allowed the Jews to buy up the press, which, once under their control, would wage "war on all ideals" and bring about "the transformation of everything to merchandise."⁵

In 1848 Marr gave expression to his revolutionary fervor by writing a tract entitled *Man and Marriage*, which fell in line with the position Marx and Engels had taken in rejecting the *Communist Manifesto*. The defeat of revolution led to the rise of the same Capitalism which had turned Marr into a revolutionary during the 1830s. Marr articulated his disgust with the rise of liberalism in the wake of the failed revolution of 1848 in his essay "The Nature of German Liberalism," in which he claimed "I would prefer to live under the iron rod of a despot, even that of Nero, than under the rule of money and the bourgeoisie."⁶

Full of disgust at the failure of revolution and the subsequent triumph of economic liberalism, Marr left Germany in 1852 and spent two years in Costa Rica, where he tried to make a living as a businessman.⁷ After failing in business, Marr returned to Hamburg in 1854, where after taking up his former vocation as a journalist, he failed at rejecting the institution of marriage, when he married Georgine Johanna Bertha Callenbach, daughter of a wealthy Jewish businessman who had converted to Christianity. Georgine was the first of Marr's three Jewish wives. This marriage provided him with an allowance of 1,000 talers,⁸ which allowed him to pursue a career in journalism unhindered by financial considerations, which allowed him circumvent after a fashion Jewish control of the press. The suspicion that Marr married for money finds corroboration in the fact that he would later claim that he was never happy during the 20 years of their marriage.⁹

The world of living according to bourgeois conventions came to an end for Marr in 1873 when both his marriage and the stock market collapsed. After divorcing his first wife, Marr married a "pure-blooded Jewess whose mother's maiden name had been Israel"¹⁰ by the name of Helene Behrend on February 26, 1874. Marr would later write, "My wife was a pure Jewess (*Volljuedin*); since pure blood is always preferable to mixed blood, my life

with her was happy.²¹ The marriage may have been happy, but it didn't last long. Helene, who was 17 years his junior, got pregnant almost immediately and died in Marr's arms after giving birth to a premature child on September 22, 1874.

After describing the tragic death of his second wife in print in the same journal that would publish pieces on the stock market swindle and the malfeasance of Marr's previous employer, Strousberg the railroad king,²² Marr received a letter of consolation from a 28-year old Jewish divorcee by the name of Jenni Kornick, who, after a prolonged correspondence, became Marr's third Jewish wife on April 15, 1875 seven months after the death of his second Jewish wife.²³ This marriage ended in rancor less than a year after it began, but not before Jenni became pregnant with a son whom Marr would have to support for years thereafter in increasingly impecunious circumstances. Marr's bitterness only increased as a result of his third marriage.

Unlucky in love and politics, Marr turned to art for consolation. In 1873 Marr became a devotee of Richard Wagner, praising his revolutionary music in an article published in Hamburg. In 1874 Marr moved south to Weimar so that he could be closer to the Bayreuth festival. In his "Letters from Bayreuth," which were published in the Vienna *Illustriertes Musik- und Theater Journal*, he lavished praise on the Ring Cycle.²⁴

"Marr found the spiritual nourishment he sought" in "the full range of Wagner's music."²⁵ Marr, like Wagner and other disillusioned '48ers, became a supporter Bismarck's claim that only "iron and blood" could resolve the issues in Germany which almost a century of revolution had failed to change. Marr came to the conclusion that "Anyone wishing to turn Germany into one, undivided republic, will be able to achieve this only through Prussia" in 1849,²⁶ when Wagner was still manning the barricades in Dresden with Bakunin.

More importantly, Wagner transposed the failed revolution against Capitalism which took place in 1848 into the realm of German myth and made it comprehensible to a generation whose faith in Christianity had been destroyed by their encounter with Feuerbach. In making the mythic dimensions of Capitalism comprehensible in terms that were both ethnic and secular, Wagner provided Marr with a new way of addressing the Jewish issue, one which precluded recourse to religious categories.

That new way found expression in the slim pamphlet which became Marr's *magnum opus*, *Der Sieg des Judenthums ueber das Germanenthum: Vom nicht confessionellen Standpunkt aus betrachtet*. Marr was now going to look at the Jewish Question from a non-religious point of view. It was an intellectual breakthrough which would have terrible consequences when Hitler brought it to its logical conclusion roughly 50 years later. Marr went out of his way to claim in his book that he intended no harm to Jews, but if

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Jewishness is as ineradicable as race, then the Jewish problem is no longer amenable to religious and moral conversion culminating in baptism and can only be solved by the eradication of the offending race.

When Marr began writing *The Victory of Judaism over Germanism* during February and March of 1878, "The term anti-Semitism did not yet exist . . ." ²⁷ Within a year of its publication in March 1879, an entirely new political movement had been called into existence based on that hitherto unknown word. On September 26, 1879, on the Day of Atonement, the Anti-Semitic League came into existence based on Marr's neologism. ²⁸ In 1880, Marr still called himself "the father of the anti-Jewish movement," ²⁹ but by the end of the decade, the racial term "anti-Semitism" had succeeded the essentially religious term "anti-Jewish," and Marr was styling himself "the patriarch of anti-Semitism." ³⁰ During the same period, "traditional terms" such as "hatred of the Jews" and "persecution of the Jews" would evolve into "anti-Semitism." ³¹

Marr began *The Victory of Judaism over Germanism* with the claim that "A resigned pessimism flows from my pen." ³² Zimmerman claims that, "The brutality of the despair expressed in *The Victory of Judaism over Germanism* turned the book into a best-seller. Readers found in the book what Marr had not written: the incentive for a war against the Jews." But Victory is a rhetorical tour de force more than an expression of actual pessimism. The fact that it launched a political movement almost immediately is a sure sign that pessimism was unwarranted.

As in the years leading up to the "Hep Hep" riots in 1819, the main force driving the animosity against the Jews was economic. Within two years of Prussia's victory over France, the huge amount of gold which Germany had received as France's reparation payments had been turned into a mountain of worthless paper, and the Jewish "Boersenschwindler" were being held accountable for this stunning act of negative alchemy. Marr may have proposed race as the lens through which Jewish malfeasance could be seen better, but the real issue driving racial animosity was usury, or as he put it:

The burning question of our day in our Parliaments, where talk is cheap, is usury. . . . The political correctness of our Judified society helps it to sail by the reef which is the usury question, and as a result poor folk from every class become the victims of the Usurers and their corrupt German assistants, who are only too happy to earn 20 to 30 percent per month off of the misery of the poor. . . . In the meantime the cancer of usury continues to eat away at the social fabric, and the animosity against the Jews grows by the hour (as it did during the Middle Ages under less dire circumstances) so that an explosion can no longer be avoided. ³³

The Romans hated the Jews because of their "penchant for exclusivity," but that characteristic alone would not have created the magnitude of the animosity which the Jew engendered, without the "spirit of haggling

and usury which they brought with them into the Roman world.”³⁴ As in the Middle Ages, when “money men” were invariably Jews, “the agitation against usury” was “the first expression among the common man of the coming cataclysm.”³⁵ The Jew promotes usury “that satanically draws others into complicity with more usury” by luring the common man into investing in “Lombard deals” which “guarantee a return of 20 to 30 percent per month” but are nothing more than elaborate swindles.³⁶

Marr claims that religion cannot explain this phenomenon, and his arguments have an uncanny resemblance to Jewish attacks on the Church a century later. Like Daniel Jonah Goldhagen, Mischa Brumlik and Bill O’Reilly, Marr claims that the Romans were responsible for the death of Christ. Marr goes on to “defend the Jews against every form of religious persecution.”³⁷ The charges are spurious because there is no Jewish religion, other than as Marx pointed out, the worship of money: “the golden international knows no fatherland, any more that black or the red international does.”³⁸ The Jewish “religion” was nothing more than the statutes of a people who had become a state within a state and this para-state, which was in reality an anti-State, demanded certain material advantages for its members.

Even Lessing’s philo-Semitic classic, *Nathan der Weise* backs up Marr’s claim. The only reason Nathan is taken seriously as the leader of the religious symposium at the heart of *Nathan der Weise* is because he is willing to lend money to Saladin. In Lessing’s eyes, “Jew and money man” were inseparable concepts, a notion that Lessing portrays “in spite of himself.”³⁹

As a result, “religion and God got dragged into the pogroms when in fact they were really nothing more that a struggle between two peoples and an instinctive reaction to the Judaization of their society rather than a struggle for existence.”⁴⁰ The real problem is assimilation, or the lack thereof. Jews constitute “a state within a state,” which has “waged war by way of deception against the West with weapons which devastated the native populations of the West whenever they were strong enough to accomplish this.”⁴¹ The Jewish spirit, as a result, “conquered the world.”⁴² This conquest didn’t flow from the Jewish religion “because the Jew doesn’t have an ideal religion, he has nothing more than a business contract with Jehovah and pays his god in clauses and formulae, which expressly provides him with the duty to exploit every non-Jew.”⁴³ Every other nation during the thousand year reign of the Roman empire and the thousand year reign of the Holy Roman Empire got absorbed into the majority culture, but “the tenacity of their resistance was so great that in the 19th century they had become the premier power in our society, and the result is that not that Judaism was absorbed into Germanism but rather the opposite, and Germanism was absorbed into Judaism.”⁴⁴

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Emancipation, which Marr dates from 1848, made Judaism the norm for Germany because compromise between a people which repeats year after year the idiotic phrase, "Next year in Jerusalem!" and their German hosts is impossible. One group must triumph over the other. Given the freedom with which the Jews were allowed to practice usury after emancipation, the outcome was a foregone conclusion:

Jewish emancipation was the legal ratification of alien rule, which brought about the dictatorship of a system of state financing which took power and injected its Semitic spirit of organization and financial manipulation into the body politic. . . . Without one blow of the sword, Judaism has become today the socio-political dictator of Germany.⁴⁵

As a result, a cataclysm was just over the horizon:

As it has so many times in the past, the brutal cry of "Hep-Hep" will become a safety valve for the state. And the time is not far in the future when the Jews who have defeated us "Jew eaters" in cultural battle will be seeking us out for protection from the violence of the enraged masses.

The Germans have no one to blame but themselves for this parlous state of affairs because the Germans are the ones who made the Jews dictators of their own financial system. "I ask you," Marr tells his fellow Germans, "please do not attack the Jews in my presence. You chose this alien hegemony in your own parliament." Once the Germans adopted the categories of "abstract individualism," i.e., capitalism, from the Jews, the triumph of Jewish caesarism was only a matter of time. The only thing that can save the Germans from the predations of the Jews is "the 'unknown god' to whom imperial Rome, half-ironically, half-premonitorily, erected altars."⁴⁶ Then just as Wagner had second thoughts about the salvific nature of Germanism when he wrote *Parsifal*, so Marr wonders rhetorically, "Should we throw ourselves into the arms of Rome? Should we 'go to Canossa' and lay all of our scientific achievements at her feet?"⁴⁷ before concluding "*Finis Germaniae*." Whether it is genuine or rhetorical, a spirit of *Goetterdaemmerung* pervades *Sieg*.

Endnotes

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2 Ibid.

3 Zimmerman, p. 15.

4 Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*, (New York: Viking, 1998), Vol. II, p. 260.

5 Zimmerman, p. 13.

6 Ferguson, *Rothschild*, Vol. II, p. 260.

7 Ibid.

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- 8 Ferguson, *Rothschild*, Vol. II, p. 261.
- 9 Zimmerman, p. 17.
- 10 Ibid.
- 11 "Wilhelm Marr," *Wikipedia*, http://en.wikipedia.org/wiki/Wilhelm_Marr
- 12 Zimmerman, p. 16.
- 13 "Wilhelm Marr," op. cit.
- 14 Zimmerman, p. 28.
- 15 Zimmerman, p. 69.
- 16 Zimmerman, p. 21.
- 17 "Wilhelm Marr," op. cit.
- 18 Zimmerman, p. 71.
- 19 Zimmerman, p. 36.
- 20 Zimmerman, p. 70.
- 21 Zimmerman, p. 71.
- 22 Zimmerman, p. 71.
- 23 Zimmerman, p. 72.
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- 25 Zimmerman, p. 71.
- 26 Zimmerman, p. 29.
- 27 Zimmerman, p. 76.
- 28 Zimmerman, p. 90.
- 29 Zimmerman, p. 89.
- 30 Zimmerman, p. 89.
- 31 Zimmerman, p. 89.
- 32 W. Marr, *Der Sieg des Judenthums ueber das Germanenthum. Vom nicht confessionellen Standpunkt aus betrachtet* (Bern: Rudolph Costenoble, 1879), p. 3. All translations mine.
- 33 Marr, *Sieg*, p. 42.
- 34 Marr, *Sieg*, p. 5.
- 35 Ibid.
- 36 Ibid.
- 37 Marr, *Sieg*, p. 9.
- 38 Marr, *Sieg*, p. 43.
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- 40 Marr, *Sieg*, p. 8.
- 41 Marr, *Sieg*, p. 9.
- 42 Marr, *Sieg*, p. 10.
- 43 Ibid.
- 44 Ibid.
- 45 Marr, *Sieg*, p. 23.
- 46 Marr, *Sieg*, p. 43.
- 47 Marr, *Sieg*, p. 48.

Chapter Eighty-Six

Civiltà Cattolica Revisits the Jewish Question

Pope Pius IX died on February 7, 1878, a year before Marr's Anti-Semitic League came into being in Germany and shortly before a wave of anti-Jewish sentiment broke over all of Europe. Once again the cause of the reaction was financial. In 1882 the Union Generale bank collapsed and its failure was blamed on "Jewish finance" and its ally "governmental freemasonry."¹ What followed was an "outpouring of publications hostile to the Rothschilds" which "had no real parallel in 19th century history."² During the 1880s most of those publications came from France.³ When Paul Eugene Bontoux, head of the Union Generale when it collapsed, wrote his memoirs in 1888, he denounced "*la Banque Juive*," which, "not content with the billions which had come into its coffers for fifty years . . . not content with the monopoly which it exercises on nine-tenths at least of all Europe's financial affairs" set out to destroy the Union Generale.⁴

In 1883 Auguste Chirac, author of *Kings of the Republic*, and *The Speculation of 1879 to 1884*, which appeared in 1887, denounced the subjugation of the Republic to "a king named Rothschild with a courtesan or maid called Jewish finance."⁵ The *Moniteur de Lyon* spoke of a "conspiracy orchestrated by a society of Jewish bankers from Germany" and a "German Jewish conspiracy."⁶ In his novel *L'Argent*, which was also inspired by the collapse of the Union Générale Bank, Émile Zola describes a young Catholic financier by the name of Saccard "who dreams of financing a project in the Balkans and the Middle East which might eventually lead to the purchase of Jerusalem and the re-establishment of the Papacy there." Saccard:

is overwhelmed with an "inextinguishable hatred" for "that accursed race which no longer has its own country, no longer has its own prince, which lives parasitically in the home of nations, feigning to obey the law but in reality only obeying its own God of theft, of blood, of anger. . . fulfilling everywhere its mission of ferocious conquest, to lie in wait for its prey, suck the blood out of everyone, [and] grow fat on the life of others." . . . As Saccard sees it, the Jew has a hereditary advantage over the Christian in finance, and he foresees . . . "the final conquest of all the peoples by the Jews."⁷

Like Wilhelm Marr, Saccard felt that:

The empire has been sold to the Jews, the dirty Jews. . . . All our money is doomed to fall between their crooked claws. The Universal Bank can do nothing more than crumble before their omnipotence. . . . And he gave vent to his hereditary hatred, he repeated his accusations against that race of traffickers and usurers, on the march throughout the centuries against the peoples [of the world], whose

blood they suck. . . [bent on] the certain conquest of the world, which they will possess one day by the invincible power of money. . . .⁸

Another proponent of the racial theory of Jewish finance was Edouard Drumont. Drumont had worked as a young man at Credit Mobilier, another bank which failed trying to challenge the Jewish hegemony over finance in France. Drumont's book *France Juive*, which went through an extraordinary 200 editions, attempted "to describe the full extent of Jewish domination of French economic and political life" via "the notion of a racially determined and anti-French Jewish character" and suggested that "the Union Generale was in fact an elaborate Jewish trap, designed to mulct the clericals of their savings."⁹ In his book *The Jews against France*, which appeared in 1899, Drumont concluded that "the God Rothschild" wielded supreme power in France: "Neither Emperor nor Tsar, no King nor Sultan, nor President of the Republic. . . he has none of the responsibilities of power and all the advantages; he disposes over all the governmental forces, all the resources of France for his private purposes."¹⁰

Civiltà Cattolica responded to this wave of anti-Jewish sentiment by publishing a three-part series on the Jewish Question, which appeared over three issues during the fall of 1890. One year after the hundredth anniversary of the French Revolution, Father Raffaele Ballerini, the anonymous author of the *Civiltà* series, claimed that:

The nineteenth century will close upon Europe, leaving it in the grips of a very sad question, from which, in the twentieth century, there will possibly be such calamitous consequences that they will cause Europe to bring it to an end by a definitive resolution. We mean the unhappy so-called Semitic question, which is better called the Jewish question, and intimately linked to the economic, moral, political, and religious conditions of Europe's Christianity. How urgent it is at present and how much it is upsetting the major nations becomes evident from the collective outcry against the invasion of the Israelites into every sector of public and social life; from the associations having formed in France, Austria, Germany, England, Russia, Romania, and elsewhere in order to stop it; from the outcries which are beginning to make themselves heard within the parliaments; finally, from the great number of newspapers, books, and pamphlets continuously appearing in order to point out the necessity of stopping and combating the spread of this plague, and stressing its most pernicious consequences.¹¹

If behind the French Revolution, Pius IX saw Freemasonry; now, behind Freemasonry, Leo XIII saw the Jews. The claim that Freemasonry was behind the French Revolution got its start with Abbé Augustin Barruel's *Memoirs Illustrating the History of Jacobinism*. The claim that there was a connection between the Jews and the French Revolution did not appear in subsequent editions of Barruel's *Memoirs* because he deliberately suppressed it.

Eight years after the publication of *Memoirs*, which is to say on the

first of August 1806, Abbe Barruel, now living again in France, received a letter from an Italian military officer by the name of Jean-Baptiste Simonini. Simonini had read Barruel's *Memoirs* with gratitude for "finding an infinite of things depicted in it which I had also witnessed with my own eyes."¹² Simonini, however, wondered why Barruel had made no mention of the Jews, who had used "their money to sustain and multiply the modern sophists, the Freemasons, the Jacobins and the Illuminati."¹³ Simonini concluded that the Jews joined with all of the already mentioned groups to form "a single faction to annihilate, if that were possible, the name Christian." During the revolution in the Piedmont region, where he was born, Simonini passed for a Jew, and after gaining their confidence was admitted to the lodge there, where he learned that by making use of all of the means available to them, the Jews claimed that in less than a century that they would rule the world, abolish all other sects in order to rule over them, and reduce all of the Christians to a veritable slavery."¹⁴

Barruel made two copies of the letter and sent one, via his uncle Cardinal Fesch, to Napoleon. That letter eventually made its way into the hands of M. Desmarests, director of the imperial police, who had been keeping the Jews under surveillance. The other copy went to the pope along with a cover letter asking his holiness what degree of confidence Barruel should place in Simonini's revelations. A few months later Barruel received a reply from the pope's secretary, Msgr. Testa, which confirmed the accuracy of what Simonini said. Barruel was no philo-Semite. He had described Talleyrand as possessing, "all of the lowness and all of the vices of Judaism,"¹⁵ but he refused to publish either Simonini's letter or the pope's response to it because he feared that innocent Jews would suffer reprisals because of it. "I guarded the contents of the letter with a profound silence, convinced that it would lead to a massacre of the Jews."¹⁶ "In 1878, Père Grivel said of Barruel, who died in 1820, that he wrote his *Memoirs* to convert the Jews, not to have them massacred.

Ignoring the fact that Barruel suppressed the Simonini letter to prevent a massacre of the Jews, Daniel Pipes, in his book *Conspiracy*, holds Barruel responsible not only for "the myth of the Jewish world conspiracy," which never got mentioned in Barruel's *Memoirs*, but also for laying "some of the intellectual foundations for the views that eventually culminated in the Soviet and Nazi regimes."¹⁷ In demonizing Barruel, as "this evil man" whose "wicked ideas"¹⁸ led to Auschwitz and the Gulag, Pipes shows that anti-conspiracy theories are even more florid than the conspiracy theories they purport to debunk.

As a result of Barruel's suppression, it was only a matter of time before "*maçonnerie*" morphed into "*judeo-maçonnerie*" as the cause of both revolutionary ferment and financial malfeasance in France. That change in

focus became apparent during the 1880s in the wake of the collapse of the Union Generale bank. Mirroring the change in public opinion which had taken place in Europe since the founding of *Civiltà Cattolica* in the aftermath of the revolution of 1848, all of Europe had become obsessed with the Jewish question. Created to deal with current political issues, *Civiltà* had no choice but to deal with the Jewish question, because by the end of the 1880s "the collective outcry against the invasion of the Israelites into every sector of public and social life" had become too big to ignore. This led *Civiltà* to conclude that:

the bonds uniting modern Judaism to Freemasonry have become so evident that it would be naïve to doubt them. Careful study of the so-called Semitic question in France, in Germany, in Italy, and elsewhere, has brought to light mysteries formerly believed to be inscrutable. Today it is known how much of its own ideas the talmudic Cabbala has introduced into the rites, the mysteries, the symbols, and the allegories of the masonic degrees. It is known that the Jews not only intermingle with all of the lodges and, where they are particularly numerous, fill them with members of their kind, but moreover constitute several supreme lodges or those directing all the others, to which have access only such people who are of Israelite blood and religion. Thus it is thought to be sure and perfectly certain that the entire structure of Masonry is controlled by a Hebrew sanhedrin whose power has no other limits than those of the infamous sect. Because of which one of France's most respected periodicals has justly written that "Today, Judaism and Masonry apparently can be reduced to an identical formula: since Judaism governs the world, one has necessarily to conclude that either Masonry has become Jewish, or Judaism has become masonic."

The most enduring legacy of the French Revolution was the rights of man. Both the Masons and the Jews used "the so-called Rights of Man" as the basis for Revolution and Revolution as the basis for overturning the Christian social order. Once the Jew "got the benefit of the common law," which would "protect him just as well as the other citizens," the Christian society was incapable of defending itself, and the Jew was "granted the complete freedom to turn against the same societies which give him refuge in their midst."

Liberty is dominion's tool:

Freedom, which in dishonor of the true God and his Christ, they pretended to raise to the throne, uniquely redounded to the Hebrews' advantage. Through it, they have acquired complete power to subjugate the nations and to ordain that the few might tyrannize the many, and this under the guise of legality, with regard to material goods, to conscience, to faith, to family, yes, and what is more, to blood and life. Out of such a spasm of liberty, equality and fraternity has arisen the despotism of the tyrannical oligarchies to which the modern states reduce themselves, and whoever glances into them will observe that they are oligarchies of Jews or of Freemasons, the Jews' base serfs. The religious right of Catholics is chained; this is the freedom of masonic Judaism. Permission of blaspheming and

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committing sacrileges is converted into a public right; this is its equality. Brutal hatred against whoever professes faithfulness to the God of his forefathers is applauded as patriotism; this is its fraternity. In the Rome of the Popes, carrying the Cross of Christ through the streets in a procession is a crime; but carrying the bust of Giordano Bruno or the horns of Satan there is a noble homage paid to the state. Thus, in practice, so it is that Judaism and Masonry intermingle and become a unity, like the sword with the hand of the murderer that wields it, or like the torch with the hand of the arsonist who clutches it. The Jews sully France with the most obscene, most scandalous, most nauseous journalism imaginable, and the Freemasons eagerly disseminate it. In short, the Jews direct the work of destroying Christianity and every noble national tradition there, and the renegade Masons carry out this nefarious work with all their might.

After collaborating with the Freemasons in the redefinition and subsequent political exploitation of the term “liberty,” the Jew went on:

to eliminate everything that was historical and national in the institutions of the different states, by reducing all of them, some more and some less, except Russia, to such a form of government which was to insure that the bulk of power rested in the hands of the oligarchies, directly or indirectly depending upon him, as for instance, the modern parliaments, which pretend, through a continuous legal fiction, to govern in the name of national sovereignty but in fact impose on us the few who quite legally tyrannize all the others.

Through its collaboration with Masonry, Judaism was able “to plunder, corrupt, and trample” the Christian people throughout Europe. Once the “insidious rights of man” superseded the laws created by Christian princes which were enacted in light of Gospel principles, “there is no human hope for liberation of Christians from the Judaeo-Masonic yoke which wears down and perverts the populations.” At that point, the atheistic state, which claims to be neutral towards religion, confers pre-eminence on the group which is “most audacious in plotting against the Christian social order. This follows naturally from the state’s promotion of absolute equality and unrestricted liberty, which turns the social order “into a tumultuary struggle between diverse and opposing forces, of which the most powerful will get the upper hand. And, unfortunately, the most powerful force is always the most malicious one, that in the choice of weapons doesn’t even shrink from dishonesty.”

According to *Civiltà Cattolica*’s account, the principles of the French Revolution had a number of negative effects, the most pernicious of which was the emancipation of the Jews, which permitted them to harm the people who so recklessly granted them equal rights. That is largely because the Judaism of the past and the Judaism of the present are completely different. The issue at the heart of the Jewish Question is neither theological nor religious, and most certainly not racial, because the Jewish religion, “until the coming of Christ” was “the only true religion, a prefiguration of and

preparation for Christianity, which, according to God's Will, was to be its successor." All of this changed after the Jews rejected not only Christ but Moses and the Mosaic law and replaced it with the Talmud, which was the antithesis of the Law of Moses and "the very quintessence of that Pharisaism which in so many ways has been shattered through its rejection by Christ, the Messiah and Redeemer." Once the Talmud became "the heart of the Jewish people," to cite the *Encyclopedia Judaica*, Judaism ceased to be a religion in any real sense of the term and became, as Marx pointed out, the worship of Mammon instead. Talmudism, according to *Civiltà*, "cannot be said, strictly speaking, to give that question a religious character, because what the Christian nations despise in Talmudism is not so much its virtually non-existent theological element" as its moral corruption. Once the anti-theological, anti-religious nature of Talmudic Judaism becomes clear, the main issue becomes moral, and at this point the *Civiltà* series focuses on how the Talmud dissolves the conscience of the Jew:

The legitimacy of robbing Christians is impudently taught by the rabbinical schools. "Since the life of the idolaters (as Christians are considered by Jews) was left to the Israelites' discretion, their wealth is still much more left to their discretion." This is the doctrine of Rabbi Joseph Albo. The possessions of Christians, according to Bava Baria, are, or ought to be, like the desert or the seashore: the first one to occupy them will be their owner, provided that this first one be an Israelite. Such is the teaching of Rabbi Pfefferkorn. "It is permissible to cheat a Christian as much as possible. Usury imposed on a Christian is not only permissible but even a good work, and for this reason it is lawful to impose it on holy days also. But a Christian is so much to be plundered [by usury] that he remains ruined." These rabbinical documents are considered holy.

Jewish criminals distinguish themselves from ordinary criminals by the premeditation which characterizes their crimes, which attain a degree of "malignant perversity" because they have the approval of their highest religious authority. After a century of placing the Talmud on equal footing with the Bible, crimes such as "sponging, falsification, usury, legacy-hunting, premeditated bankruptcy, contraband, counterfeiting, fraudulent selling of hypothecated property, extortion, swindle and fraud of all sorts and with every sort of aggravating circumstances" have become pandemic, and what is worse, because of the civil equality which the rights of man have conferred on Judaism, "most of the crimes committed by Jews go unpunished one way or another, and are sometimes even rewarded by knights' ribbons and crosses or baronial titles."

This dissolution of conscience is formalized by various rituals and oaths which have been codified in the Talmud, which contains

external rituals and their varied formulas or paraphrases by means of which they intend to take not or to invalidate the oath, to which nevertheless they swear. This entire accumulation of malfeasances, which they and their loyal-

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ists have calumniously imputed to the Jesuits' morals, conversely is practised by themselves with unscrupulous religiosity. Better still, the night before the feast of Kippur, they absolve themselves, through certain ones of their ceremonies and contradictions, of all bonds of conscience with which they have contracted under a more formal binding force, thus fulfilling [or not fulfilling] all of their obligations of conscience, past, present, or future ones, just as it pleases them and redounds to their advantage. Moreover, according to the Talmud, in a case between a Christian and a Hebrew, the Jewish judge must always, as far as possible, let his fellow Jew win.

The Talmud goes even farther by making it the moral duty of the Jew to appropriate Christian property whenever possible. This includes in particular stolen objects which the thief pawns in Jewish pawn shops. The great Jewish thinker Maimonides warns his fellow Jews that any Jew "who returns something" to the Christian from whom it has been stolen "commits a sin, because he increases the power of the impious."

The issue may not be racial from the Catholic perspective, but it is from the Jewish perspective because the Talmud claims that:

the Israelites not only form the highest race of mankind, which is totally comprised of races inferior to them, but also are solely, by full divine right, entitled to the possession of the entire universe, which they will one day enjoy. Because of this insane belief, Judaism has insinuated itself everywhere; moreover it can be said to be the central dogma of what the Jews call their religion. Therein lies the depraved doctrine of messianism that they profess from the third century of the Christian era, when the Babylonian Talmud was compiled, until today, and whoever, following the course of time, traces the commentaries of the greatest rabbis, will find it to be unwavering and always identical, as in our time is revealed by the Jew Disraeli, who became Lord Beaconsfield and head of Great Britain's government.

The Talmud cites certain passages in the Old Testament to justify its racism, as when it claims, "O seed of Abraham, the Lord has spoken to you through Ezekiel's mouth: you are my sheepfold; that is, you are human beings, whereas the other peoples of this world are not at all humans, but beasts." Certain consequences flow from Talmudic racism. For example:

The Jew who rapes and kills a non-Jewish woman must be absolved in court, because he has done evil to "a mare." Maimonides, who is considered infallible in the ghettos, states in his treatise on homicide that the Israelite who kills a goy or a non-Jewish man cannot be punished. Doesn't that suffice? One of the books of Israel that has authority seriously asserts that "the non-Jews are black animals" or, in other words, wild boars. And so in such a way are treated all those who aren't of its nationality by this race, that by its sexual excesses, was disgusting even to the Romans of the Caesars' epoch, so that Tacitus called it *proiectissima ad libidinem gens* [a people wholly addicted to debauchery].

Jewish racism leads to Jewish exclusivism. Because

the Jewish race, in as far as it is a nation, though as such without a fixed fa-

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therland and without a political organism, lives dispersed among the nations, perhaps not without getting mixed with them here and there, but keeping aloof from them in all things which might develop into social union, and regarding them as enemies or even as victims fallen to its greediness.

Jews always constitute a state within a state.

Thus it is that the great Israelite family, dispersed among the peoples of the world, forms a foreign nation within the nations in which it resides, and the sworn enemy of their prosperity, since the cardinal point of Talmudism is the oppression and spoliation of the very peoples who extend hospitality to its disciples. Because of which St. Paul, at the end of his days, characterized the Jews as displeasing God and hostile to all men: *Deo non placent, et omnibus hominibus adversantur*. [Who (killed both the Lord Jesus and the prophets, and have persecuted us) please not God and are adversaries to all men.]. . . Hence Judaism, wherever it gains a footing, necessarily establishes a state within a state.

Because of their animus toward their fellow citizens in whatever land they reside in and because they naturally tend to become a state within a state, Jews have a natural tendency to become traitors. What passes for Jewish patriotism has as its goal the "ruining and devouring the nations which have accorded him the right of citizenship." This belief in turn leads naturally to dissembling and that explains why:

the most hateful trade of being a traitor and spy is one of their characteristics. Well known is Bismarck's dictum: "God created the Hebrew in order to serve the man who needs him as a spy," and the other one of Count Cavour, who used to say of a certain Hebrew, his confidant: "He is most useful to me, in order to let the public know what I wish it to know. The very moment I have finished speaking with him he has already betrayed me."

Far from wanting to contribute to the rise of anti-Semitism, Leo XIII saw the *Civiltà Cattolica* series on the Jewish Question as an antidote to the anti-Semitic fanaticism which was leaching out of movements like the one Marr created in Germany and which was starting to appear in Catholic sources like in Catholic Observer in Milan. Taradel and Raggi fault *Civiltà Cattolica* for representing Judaism as the "demonic antitype of Christianity. . . . If the foundation of Christianity is love of neighbor, the foundation of Judaism can only be hatred elevated to a supreme religious precept."⁸ The basis for the charge is easily found in the text, but taken in context it is difficult to refute. *Civiltà* claims that:

Judaism is comprised of a love and a hate: the insatiable love of gold, *auri sacri fames*, and the inextinguishable hatred of Christ. The love serves the hate, and the hatred as well as the love are to lead to the apogée of that power, which is the Satanic delirium of reprobate Israel. Let the history of masonry be examined and it will be found that, from the past century until our days, it has intended nothing but accumulating riches and fighting to the death in Christian society, Christ and His Church. All of the predominance, overt and covert, of Freema-

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sonry has to serve the furious Jewish eagerness for felling the Christian power, in order to build upon its ashes. From May 1, 1789, the day when the rights of man were glorified purely on behalf of the Jews, until September 20, 1870, when Rome was conquered with shells and the Papacy made a prisoner, the conspiracies, the uproars, the rebellions, the assassinations, the massacres, the wars, the so-called revolutionary deeds, everywhere and always had the same success of increasing the Hebrews' wealth and of humiliating and oppressing the Christian civilization.

According to the Jewish view of history, the Church was infected with anti-Semitism from the moment of its inception, and that anti-Semitism had nothing to do with Jewish behavior. *Civiltà*, however, reasserts the moral foundation of its critique when it claims that "the persecutions which they [the Jews] underwent in the past and which they are still now undergoing here and there. . . were and are the consequence of their mad wickedness" because:

Everywhere they paraded and parade their avid ambition; everywhere they bragged and brag about their divinely given superiority over the peoples among whom they lived and live; everywhere they showed and show themselves to be intractable, hostile and malevolent towards the nations that tolerated or tolerate them and even bestowed or bestow upon them the blessing of the right of citizenship.

In their critique of *Civiltà Cattolica*, Taradel and Raggi claim that anyone who felt that Jews were practitioners of predatory finance or supporters of revolution suffered from mental illness: "The obsession with a Jewish bolshevik plot, which has been defined by Norman Cohn as a true collective psychopathology became [at *Civiltà Cattolica*] the key to understanding all of the political events in Europe. . . . The myth of a Jewish conspiracy is the motor as well as the ideological lens through which *Civiltà Cattolica* explained to its readers history as it was unfolding."⁹

The idea that the Jews conspired to overthrow the Czar is far from a conspiracy myth. Lenin himself praised the Jews for the role they played in the revolution and then suppressed the speech so that the Whites could not use it in their propaganda against the Reds. Claims about "the myth of Jewish conspiracy" may be a fundamental tenet of the Enlightenment, but they are no longer intellectually plausible. They have been exploded by Solzhenitsyn's book *Two Hundred Years Together* (yet to be translated into English) and Erich Haberer's book on the role Jews played in the revolutionary movement in Russia, and, dare I mention it, *The Jewish Revolutionary Spirit*.

One of the causes of that wave of anti-Jewish sentiment (or one of the manifestations of it) was the blood libel trials which sprang up in Hungary and later in Russia. Taradel and Raggi hold *Civiltà* as somehow responsible for this phenomenon by the very fact that they reported on it. They make it

clear that anyone who took the blood libel accusations seriously was guilty of anti-Semitism.

A similar view was expressed by Cardinal Vaughan and Lord Russell when they wrote to the head of the Holy Office in 1900 asking him to prohibit Catholics from mentioning the blood libel. The biting response of the Holy Office makes it clear that this request was tantamount to forbidding Catholics from talking about the O.J. Simpson trial because the blood libel was part of the legal history of countries like Poland and Bohemia, and the Holy Office had no power to expunge those cases from the legal record. "Given all of this, the Holy See cannot give the declaration which has been requested, for even if it satisfied a few deluded Englishmen, it would give rise to protests and scandals elsewhere."⁵ Taradel and Raggi claim that "the triumph of the *Civiltà Cattolica* line could not have been more complete. . . . The resolution of the Holy Office, under this point of view should come as no surprise: it is inconceivable that it would condemn publicly all of the blood libel accusations which had been promoted by the secretary of state and Leo XIII himself."²⁰

Taradel and Raggi's indignation rings hollow today. In the eleven years since the publication of *La Segregazione amichevole*, we have seen the publication of Peter Schaeffer's book on *Jesus and the Talmud*, as well as the publication (subsequently withdrawn under Jewish pressure) of *Pasque di Sangue*, a book substantiating the authenticity of the blood libel accusations, which was written by Elio Toaff, the son of the former chief rabbi in Rome. In light of publications like this, *Civiltà Cattolica* seems more relevant to our age than the indignation of the defenders of the Enlightenment, who deny legal facts a priori.

Civiltà Cattolica posited a chain of premises linked in logical fashion. The net result of the overthrow of the Christian social order and the implementation of the "so-called Rights of Man," was the rule of usury. Eventually the moral critique of the Jew which began with an examination and condemnation of the Talmud resolves itself into a critique of economics, which needs to be firmly situated under the purview of the moral law before it can be understood properly or be of benefit to the common good. In the wake of emancipation, the main way that the Jews achieved their hegemony over Christian societies was through "their insatiable appetite for enriching themselves via usury."

The morals of the Talmud "are at variance with the most elementary principles of natural ethics." Those accustomed to occult racial explanations of anti-Jewish sentiment will be disappointed with *Civiltà Cattolica's* explication of the Jewish Question because like Marr's book before it and Georg Ratzinger's book, which appeared two years later, the main issues which unites all three critiques are moral and economic. The source of Jew-

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ish power is usury, which is “a powerful weapon” which Jehovah “in his mercy has reserved” to the Jews. According to the Jews, usury is:

an invincible force, that is to raise us in the midst of the nations of Christ and to subject them to our domination. This force is named in the holy book, and it is called usury. The holy book, as you know, prohibits us from practising usury among brothers, within our own tribe and against those of our kind; but it doesn't prohibit its practice against the foreigner, the infidel, the enemy. It therefore serves us as a weapon of war and an instrument of victory. Thus, usury remains to us, and better than the faith and morals of Christ, usury is the little stone that fell from the mountain and is to cover the world; the mustard seed that is to grow into that superb tree which will dominate the world.

Modern political principles, symbolized by “the so-called rights of man,” were “invented by the Jews,” to circumvent the laws which Christian kings had put in place to protect their Christian subjects. Seen from this perspective, Jewish emancipation was nothing less than the “freedom to practice usury.” Usury, in other words allowed Jewish emancipation to lead so quickly to Jewish control:

Once having acquired absolute civil liberty and equality in every sphere with Christians and the nations, the dam which previously had held back the Hebrews was opened for them, and in a short time, like a devastating torrent, they penetrated and cunningly took over everything: gold, trade, the stock market, the highest appointments in political administrations, in the army, and in diplomacy; public education, the press, everything fell into their hands or into the hands of those who were inevitably depending upon them. The result was that in our days Christian society encounters in the very laws and constitutions of the states the biggest obstacle which hinders it from shedding the yoke of Hebrew audacity, imposed under the guise of liberty.

The Rights of Man were in reality the Rights of Jews to exploit their fellow man:

That series of assertions which in 1789 was said to be the synthesis of the rights of man, in fact represented nothing but the rights of Jews, to the detriment of the peoples in whose bosom the practice of these rights was advanced. . . . This is seen in the universal stupor in which Europe finds itself as it perceives that gold, the dissemination of ideas, and the political-irreligious tendency of its states are nearly entirely in Hebrew hands.

France was not alone in falling under the yoke of the Jews in the aftermath of its Revolution. The same thing happened in the German-speaking world in the aftermath of the Revolution of 1848. What happened in Austro-Hungary also paralleled what happened in England, where the property of the landed aristocracy was mortgaged as a prelude to falling into the hands of its Jewish creditors:

After 1848 in Hungary, and after 1862 in the rest of the Empire, the Jews extorted the legal authorization to possess their own land. In such a brief interval, the

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Rothschild family, in Bohemia alone, acquired a quarter of the land, which was in the possession of the sixty oldest homes in the realm; and now they alone possess seven times more than the imperial family. Today, in the realm of St. Stephen, the Jews have such a great power that they enjoy more than a quarter of the electoral votes which, in the elections, are reserved for the big landowners; and at present they begin to decorate themselves with the titles and the names of the most illustrious lineages of that region. Half of the County of Neutra now belongs to a single Hebrew, Baron Poppel.

As a result:

The Hungarian public debt, which in 1873 was 221 million, rose in 1885 to 1461 million, and now is more than 1600 million. And the minister, Tisza, the great patron of the Jews, three years ago proposed giving a seat of honor in the court to Alberto Rothschild and his wife, in recognition of his merits in sponging off the national credit. To accord him this is to add to the mockery. In Galicia real estate is already to a large extent in Jewish hands. Most farmers are landowners in name alone, and have to labor for the Jewish mortgage companies as indentured servants.

After the Austro-Hungarian implementation of the rights of man “two million foreign usurers” descended upon them and stole the “entire patrimony the 40 million Austro-Hungarians who granted them hospitality and civil equality.” Once the land which formerly belonged to the Austrians fell into the hands of the Jewish usurers who held the mortgages on their property “the Empire will revive the custom that flocks of slaves cultivate the farms, to the pure profit of the new masters. The old princes’ and magnates’ descendants will hoe the vegetable gardens and the fields of the emancipated rag dealers of Vienna, Pressburg and Buda; and sons of the former owners will wash the feet of the Sarahs and Judiths.”

The source of Jewish power is capitalism, which is to say, state-sponsored usury:

It is clear that the usurious loans granted by the Hebrews via real estate mortgages, year by year facilitate the transfer of the national territory from ownership by Christians to that by Hebrews. In Austria it is estimated that, in this way, about 10,000 farms fall into Jewish hands every year; in France, Italy, and elsewhere things don’t look much different. If things will be going on like this, the point will be reached where the arable land of these various nations will turn into vast estates owned by a handful of foreign Croesuses whom the people will serve as slaves.

The Jews obtain their gold through usury, but they use their gold to control the media, and they use the media to subjugate the mind of the Christian majority to “the magisterium of the public press and academia” because “journalism and public education are like the two wings that carry the Israelite dragon, so that it might corrupt and plunder all over Europe.” Usury, as a result, now “reigns supreme” in Rome, as it does in France, the

eldest daughter of the Church, where all of

so-called High Finance is in the grip of non-French Jews who possess inestimable wealth. The litany of these princes of Israel is long and all have last names which sound as French as those of Arabs or Zulus. The Dreyfuses, Bichoffsheims, Oppenheims, Erlangers, Hottinguers, and so on, altogether form a banking sanhedrin that represents a value of at least 10 billion, entirely extracted from the veins of France, thanks to the rights of man, invented by this cosmopolitan and insatiable race itself and granted to it.

Civiltà's analysis of Judaism has uncanny similarities to Marx's "*Zur Judenfrage*," especially when it claims that Hebraism's "adoration of the golden calf," culminating in "Hebrew hegemony," has created a situation in which "there is no longer any virtue on earth but industry, no religion other than profit, no priesthood other than business, no rite other than money-changing, no God but gold." Jews turn business into religion and religion into a business:

On the stock market, every man is considered honorable in the Jewish sense of the word as long as he pays in cash, whether he got his fortune by fraud, usury or exploitation of the weak. The cruelty and lack of conscience which characterizes commercial life develops of necessity from this Jewish stock market notion of honor. The Christian nation is exploited with cold calculation. The Jews derive from the biblical concepts they take from the Old Testament the conclusion that all of the other nations of the world are destined to become nothing more than the footstool to serve the power of the chosen people. Unless they want to end up the helots of Judaism, Christian nations are going to have to take a stand against this sort of behavior. Judaism is going to have to recognize the limitations of Christian morality in their business dealings. Otherwise, a separation of this people from the Christian nations is going to have to take place. Parasites are no more tolerable in the business world than they are in nature.¹⁷

Civiltà also agrees with Engels' claim that the French Revolution led to rule of Mammon in France: "the revolution of 1789 has yielded her the glorious profit of passing from the noble submission to her most Christian kings over to the ignoble servitude of the kings of Mammon." The "modern Hebrews . . . constitute the scourge of divine justice . . . for the nations who have jointly apostatized from the Church." Enticed by the "sweetness of liberalism," once Christian nations like France have awakened after a century of revolution, exploitation, and moral decline to discover that they are now firmly in "the embrace of the voracious octopus of Judaism."

At the conclusion of their series on the Jewish Question, *Civiltà* proposes a number of remedies. The first is expropriation, which it characterized as "the lesser of two evils." If the Jews are waging economic war on the Christian majority in countries like France, then the state has the right "to impose upon them the lesser evil of confiscation." Expropriation is an especially appropriate countermeasure because "gold is the most powerful

weapon by which Jews exterminate religion and oppress the people; consequently, in regard to necessary defense, one has at least the right to seize this weapon from them." Citing Peter the Venerable's claim: "*Serviant populis christianis, etiam invitis ipsis, divitiae Judaeorum*" (although unwillingly, give the benefit of the riches gathered by the Jews superabundantly to the Christians), *Civiltà* urges that "all of the goods of the Jews, with no exception, be proclaimed nationalized" in order "to pay off the public debts of the states." To that measure *Civiltà* would add what it calls "the remedy of exile." "One ought not to say: Death to the Jew! but rather, one ought to say: Out with the Jew! He may live, but far from us."

The aftermath of the French Revolution showed that Jewish hegemony was a punishment for Christian apostasy:

France sets an example of this. She has just celebrated the first centenary of that revolution which separated her from God, the Church, and her kings. But how did she celebrate this solemnity? France prostrated herself in the dust of the Masonic temple of Solomon, humiliated under the feet of the talmudic synagogue, as a slave of a swarm of foreign vultures who have already drained three fifths of her ancestors' patrimony from her.

Jews are the scourge of God. Just as "The Greeks' apostasy was punished by the Mohammedans, who destroyed their empire. Heaven's chosen instrument of anger for punishing the degenerate Christianity of our time is the Hebrews." There will be no solution to the problem of Capitalism as long as Europe refuses to return to Christ. Reform is impossible as long as:

there are governments which continue to replace the ten commandments, the faith, and the Gospel of Christ with the principles glorified by the French revolution. If the Christian societies, having been removed from the Church of Jesus Christ, won't return to Her, they will wait in vain for their liberation from the iron yoke of the Jews. As long as sin will endure, punishment also will endure and even intensify.

If the Church fails to impose remedies consonant with Christian charity, the barbarians within the gates will impose a more violent solution. Either way a reaction is inevitable. The Jews may be the scourge of God, but they will eventually suffer for the role they have played. In a passage which predicted the violent reaction against the Jewish revolutionary spirit which took place in Germany less than a half century later, *Civiltà* claimed:

For the predominance to which today's revolutionary law has helped them [i.e., the Jews] is digging an abyss under their feet, whose depth corresponds to the height to which they have risen. And at the first burst of the storm they are provoking by their very predominance at present, they will suffer such an enormous ruin, heralding an event as unequaled in their history as their modern audacity is also unequaled and with which they have trampled the nations that have madly exalted them.

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One of the thinkers that the *Civiltà Cattolica* series cited by name was Georg Ratzinger. Georg Ratzinger was a political economist and social reformer who was born at Rickering near Deggendorf in lower Bavaria on April 3, 1844. Ratzinger was ordained to the priesthood in 1867 and received his doctorate in theology in Munich one year later. Ratzinger became more and more involved in the political controversies of his day throughout the 1870s through the articles he published in various journals, an involvement which reached its culmination when he was elected to the Bavarian diet and later to the Imperial Reichstag, where he served as a member of the Catholic Center Party. Ratzinger's involvement in politics did not keep him from continuing his career as a writer who produced scholarly work on political economy as well as monographs on Bavarian culture. Ratzinger was a life-long opponent of the English materialistic system of classical economics, which got its start with the writings of Adam Smith. He never wavered in his conviction that the ethical principles of Christianity were the only sure basis for an enduring social order and a prosperous economy.

As his name indicates, Georg Ratzinger is a relative of Pope Benedict XVI, his great uncle in fact, and was mentioned by the pope in *Light of the World*. "He was my great uncle, my father's uncle," the pope told Bavarian journalist Peter Seewald:

He was a clergyman who had a doctorate in theology. In his capacity as a representative in the Bavarian state legislature and in the Reichstag, he was an early advocate for the rights of farmers and of the average man in general. I read the passages in the congressional record in which he attacked child labor, something which was unheard of at the time and considered by many an affront. He was obviously a tough guy, and because of his achievements and his political stature we were all proud of him.¹⁸

In his interview Pope Benedict neglected to mention that his great uncle wrote a book on Jewish business practices and that his writings were cited numerous times in the *Civiltà Cattolica* series on the Jewish Question.²¹ In *Juedisches Erwerbsleben*, which he wrote under a pseudonym, Georg Ratzinger claimed that if "a handful of Jewish bankers . . . continue to enjoy the full security that they have now, by virtue of civil equality, their fortunes will continue to increase twice and threefold." If in the course of the first century of their hegemony over the French economy, the Jews have been able to amass a fortune of 80 billion, "in another century the entire national patrimony will be in their grasp."

The problem at the heart of the Jewish Question, according to Dr. Ratzinger, is capitalism, which constitutes "the main nerve of today's Jewish power in Europe." Ratzinger defines capitalism as "the so-called liberty of money transactions, behind which is hidden the most execrable infamies of usury." Capitalism brings about "the ruin of the economic order of na-

tions," every bit as inexorably as freedom of the press brings ruin "to their moral, political, and religious orders."²²

A significant gulf separates Pope Benedict XVI from his great uncle. The most significant area of disagreement is their disparate views on the Jews. When, on the last day of February 2011, Joseph Ratzinger released volume II of his book *Jesus of Nazareth*, the big news surrounding the release of the book had to do with the Jews. As the AP headline put it, "Pope exonerates Jews for Jesus' death in new book." According to the same report, "Benedict concludes, it was the 'Temple aristocracy' and a few supporters of the figure Barabbas who were responsible," not the Jewish people.

Pope Benedict's admiration of his great uncle is understandable. The real issue is whether the feeling would be reciprocal. Would a man who wrote that "There is nothing more repugnant than having to listen to educated Christians slandering their own people while at the same time glorifying the Jews"²¹ be proud of a great nephew who exonerated the Jews' of responsibility for Christ's death? Or a prefect of the Congregation for the Doctrine of the Faith who presided over the publication of an apology to the Jews issued by his predecessor? Probably not, because Pope Benedict's great uncle had written even more pointedly:

There would be no Jewish Question if the educated elites among the Christian peoples hadn't betrayed their own principles. At a time when Jews stand by even their own criminal element, we see Christian politicians and legislators betraying their own Christian faith on a daily basis and vying with each other to see who has the privilege of harnessing himself to the triumphal car of the Jews. In Parliament no Jew need defend another Jew, when their Christian lackeys do that for them.²³

Like the *Civiltà Cattolica* series which quoted him a number of times, Georg Ratzinger traced the Jewish Question haunting Europe in the 1890s to its moral source in usury. In the name of justice, great medieval popes like Innocent III and Gregory IX as well as the ecclesial synods and councils felt themselves called to take legal measures against the excesses of the Jews" forcing them to return to their victims "Whatever they had appropriated through usury and exploitation."²⁴

By curtailing the Jews' ability to practice usury, the popes deprived them of their ability to occupy the choke points in the culture. Dealing with usury allowed the other controls necessary for preserving a Christian culture to fall into place. Jews were not allowed to employ Christian servants in their houses, and when it came to their clothing, they had to wear the so-called Jew hat in order to be immediately recognizable as Jews. Jews were not allowed to undermine the Christian social order. Jews who defamed Christ or Christians were punished. They were not allowed to do business on Christian holidays and were not allowed to make usurious

loans. During Holy Week they had to remain in their homes. Jews couldn't live wherever they pleased, but were confined to specific districts. It was also forbidden to sell house or real estate to Jews, or to rent to them, as was living under the same roof with Jews. Similarly, Jews were forbidden to hire Christian nursemaids, servants, or day laborers. None of these social controls would have worked, however, without taking control of usury first.

Like *Civiltà*, Georg Ratzinger traced Jewish hegemony in finance to the French Revolution. Following Napoleon's emancipation of the Jews, Jews took over the economies of one nation after another in Europe because of their sharp business practices. What Ratzinger calls "Juedisches Erwerbsleben" allowed them to cheat the Christian natives, who had been taught to work hard, be trusting, and love their neighbor. Jewish immorality in finance, in other words, gave the Jews an unfair economic advantage in Catholic countries:

The emancipation of the Jews, whose views and concepts contradicted the laws and customs of the Christian nations, could not help but have a destructive and corrupting effect on the entire Christian society. . . . This fact alone explains why Jews are able to accumulate riches so quickly. . . . The example of moral corruption has a contagious effect, and that explains the corrupting effect of Jewish influence on commerce.²⁵

Ratzinger claimed that it was an act of supreme foolishness when the necessary protections for the social order were lifted in the years following 1789. Once this happened, it was only a matter of time before the Jews would gain the upper hand because the business ethics they derived from their study of the Talmud taught them that cheating the goyim was a virtue. This was particularly the case among the benevolent peoples who made up the population of Catholic nations, who had been taught to work hard and trust civil authority as defending their interests. Once these people fell into the hands of the usurers, they found they could not extricate themselves from its tentacles, in spite of their frugality. Because of the widespread acceptance of usury in the period following the French Revolution, just about everyone was impoverished, and only the Jews got rich.²⁶

Ratzinger's book appeared in 1892, shortly following the publication of *Rerum Novarum*, Pope Leo XIII's encyclical on the condition of the working classes, and the three-part series in *Civiltà Cattolica* which warned Catholics about "the voracious octopus of Judaism."²⁷ The anger at Jewish business practices had reached the boiling point because those involved in the "lucrative professions" could amass riches at the cost of others in a few short years:

This form of profit is obscene, and the hatred and revulsion which the working classes feel toward these practices is fully justified. Envy isn't the cause of this hatred, but rather indignation at the unjust appropriation of value, that and the

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perception that this unjust appropriation constitutes an assault on the foundations of social life, evokes in the breast of the honest working man, bitter feelings. When the industrious and skilled worker, the honest civil servant, and the circumspect merchant in spite of all out exertion can't earn a living, but when on the other hand this or that speculator, without any effort, can earn thousands or hundreds of thousands through IPOs or the issuing of T-bills, this is a sign that the economic organism is so diseased that society is in urgent need of medicine and reform.²⁸

Georg Ratzinger's German Wikipedia page accuses him of "publishing antisemitic hate literature," but ignores the fact that Ratzinger goes out of his way in *Juedisches Erwerbsleben* to attack anti-Semitism as an un-Christian ideology. The anti-Semites of Ratzinger's day were capitalizing politically on the hatred which Jewish business practices had created among the working classes. Even though anti-Semites like Wilhelm Marr sought a racial explanation for Jewish behavior, the source of the growing animosity was Jewish behavior, not Jewish DNA. And Jewish behavior had gotten out of control because the Christian majority was no longer willing to enforce the usury laws which had been enacted to defend the Christian social order because they had become, by and large, Jews themselves in their addiction to easy money as the alternative to hard work. According to Ratzinger's analysis, Christian idealism:

has been disappearing all the while being replaced by the Jewish *Weltanschauung* in Christian circles. In the circles which feel and think like Christians, however, the revulsion at Jewish dealings and those of the baptized conversos is becoming more and more apparent. The reason that Christians now look on Jews with intense anger in their eyes is not to be found in race, and not in national origin, and not in anti-Semitism. The real path of resistance lies not anti-Semitism and its excesses. The real basis of the contemporary Jewish question lies in the moral inferiority of the Jewish view of commerce in comparison with the demands of Christianity.²⁹

"The solution to the Jewish question" lies in the application of the traditional Catholic teachings like *Sicut Iudeis non*. That means "not in allowing Christians in general to sink to the level of the lucrative occupations, but rather in raising the Jews to a higher sense of productive work, in higher numbers than is the present case, to the level of Christian mores as propounded by Christian teaching on commerce and property." And Georg Ratzinger adds that that also means rejecting anti-Semitism:

We totally reject the anti-Semitism that is now being proposed. . . in Austria and by a number of the exalted German nationalists. Anti-Semitism understood as a matter of race stands in total contradiction to the Commandment of love of neighbor, without regard to race or national origin. On the other hand, it is the duty of every true Christian and patriot to take a stand against the dangerous errors of numerous Jews in the business world and to warn their fellow Christians about the dangerous illusions of the philosemites who predominate among the

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ruling elites.³⁰

In addition to failing to mention passages like those when levelling charges of anti-Semitism, Georg Ratzinger's accusers also ignored the fact that Jews from Heinrich Graetz to Samuel Roth have had far worse things to say about the Jewish business ethics which the Ashkenazi had learned from the Talmud. According to Roth, the Jews are taught that they are "the salt of the earth" and that everything they

see before them. . . is only to be won away with the superior brain with which God has endowed his chosen ones. Each of them, when he grows up, becomes an agency of cunning to defeat the civil law. The Polish Jew does not remain in Poland. He migrates. Eventually he finds himself a rich nest in England, in France, in Germany, in America, in one of the South American countries. To each of the countries of his invasion the Jew brings the whole bag of commercial tricks and statutory maneuvers with which he poisons the arteries of the civilized world.³¹

The short hand term for "Jewish business practices" is capitalism. Given the pernicious effects which capitalism had had by that point on every traditional culture, especially traditional Catholic cultures, the nations of Europe at the end of the 19th century were faced with a choice: either enforce the laws (e.g. the prohibition against usury, child labor, etc.) which were erected by the state to protect Christian culture against the Jews who were the cutting edge of capitalist subversion or become Jews themselves because of their acceptance of Jewish business practices. The Austrians had already gained the reputation of being exploitative Jews in the Balkans according to an anecdote told by General Philippovic.³² Free trade, capitalism and Jewish business practices, according to Ratzinger, go hand in hand. Therefore:

It was to be expected that the Jews, who with centuries of practice became skilled in the deceptions of economic warfare and acquired the arts of exploitation to perfection would take center stage under the regime of free competition. The Christian, among whom the overwhelming majority were accustomed to performing productive work, and who had been taught to avoid as immoral the type of deception that was typical of the arts of economic warfare, became the first victims of this exploitation, which made the Jews rich.³³

Ratzinger rejects the notion that the Jews have won out in the struggle of natural selection because of their superior intelligence, an argument which paradoxically has become influential in social Darwinist, racial circles. According to Ratzinger, it wasn't:

talent, but rather sharp business practices; not knowledge and ability, not productive capabilities and production, but rather deception and exploitation of others [which] makes the Jew rich and admired in society. The stock exchange, lending money, usury, truck—in short all of the business practices which lead to easy and quick profits without productive work are the preferred trades of the Jew. If they devote themselves to study at the university, they turn more often

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than not to journalism, medicine and the law, because these occupations lead most easily and quickly to riches. The solution to the Jewish question lies not in allowing Christians in general to sink to the level of the lucrative occupations, but rather raising the Jews, in higher number than is the present case, to the level of Christian mores as propounded by Christian teaching on commerce and property, to a higher sense of productive work.³⁴

Ratzinger claimed that one of the most dangerous illusions of his day involved turning a blind eye to the pernicious nature of Jewish business practices out of a misplaced fear of being accused of anti-Semitism:

One of the philosemites, the former Prussian finance minister Holbrecht, claimed that it was insufferable how the entire Jewish nation cried out whenever someone stepped on a Jew's foot. Whenever a Jew goes on trial, strange things begin to happen, the strangest of all being the total solidarity among Jews in the defendant's behalf. The entire liberal-Jewish press immediately goes into high gear, conditioning public opinion, threatening here, flattering there.³⁵

Jews are over-represented in white collar crime, and yet whenever a Jew gets put on trial, the Jewish controlled press comes to his defense and accuses his accusers of anti-Semitism: "Jewish public opinion in the Austrian press always shows solidarity with Jewish criminals. Every time a Jew is convicted of a crime, it is taken as new proof for pervasive anti-Semitism." When a Jew is convicted of insubordination or treason, "The fault lies with the anti-Semitic spirit in the army."³⁶

The Jewish Press takes the exoneration of Jewish criminals to an even higher level by exonerating the crimes themselves. This is especially true of financial crimes. Ratzinger cites a history of usury, written "by a Jew by the name of Neumann," which claims that:

there was no such thing as usury. Every man had a right to spend his money as he saw fit. It's a man's own business what type of deal he involves himself in. Neumann is totally outraged that canon law "will not even grant to the Jew the right to lend money at usurious rates." This is the view of business practices which is held in intelligent Jewish circles. This is also the result of the much-praised educational reform in the Austro-Hungarian empire.³⁷

These abuses have created the very anti-Semitism the press purports to decry: "It was out of longing to be rescued from this intolerable situation that the storm of anti-Semitism developed." People like Wilhelm Marr "formulated the issue incorrectly as a racial question," by ignoring both the moral dimensions of the outrage and the fact that "the solution lies in the Christian reform which we have proposed, which imposes sanctions based on the experience of centuries on Jewish immorality and Jewish dishonesty in economic life." In diverting the focus away from race, Ratzinger brings his critique back to its moral foundation when he claims that the frequently wielded charges of anti-Semitism ignored the fact that:

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The German-Polish Jews devote themselves exclusively to those branches of commerce which allow an easy exploitation of their neighbor and instant riches. The Ostjuden show not a trace of any feeling for the common good, other than a concern for the Jewish race, and manifest the ruthless pursuit of their own self interest. When the Polish Jew arrives in Berlin or Vienna, he either remains in clothing and his lifestyle what he was in the shtetl, or he gets "educated." And what constitutes this Jewish "education"? It consists entirely in superficialities. Instead of wearing his caftan, he buys himself a suit, and trades in his rubber boots for a pair of shoes, and instead of wearing his peyas he combs his hair. If the Jew dresses like a European he considers himself educated. Otherwise he lives his life just like the Jew in the caftan in full accord with the Talmud. He haggles with you; he lends you money at usurious interest rates; he takes advantage of you in order to enrich himself.³⁸

The reason for the growing anger at the Jews which had become universal in Europe by the end of the 19th century is not some inevitable racial antipathy of the sort which Marr compares to the "friction" that comes about when tectonic plates rub together,³⁹ it is the inevitable result of the economic injustice which is inextricably bound up with Jewish business practices:

The reason that Christians now look on Jews with intense anger in their eyes is not to be found in race, and not in national origin, and not in anti-Semitism. The real path of resistance lies not anti-Semitism and its excesses. The real basis of the contemporary Jewish question lies in the moral inferiority of the Jewish view of commerce in comparison with the demands of Christianity. . . . The Jew displays in this regard an unbelievable ruthlessness so that in little transactions they begin to accumulate the capital that allows them to exploit others. It is in this ruthlessness and in their tireless pursuit of almost imperceptible profits wherein lies the secret of Jewish success in business, but it is also therein where the danger lies to which the Christian population is exposed when they sink to the same level.

The so-called worker question, "*die Arbeiterfrage*" discussed by Bishop von Ketteler, is in reality a subset of the Jewish question, because:

As soon as the Polish Jew gets his foot in the door, wages are driven down and working hours are extended. Once this happens the Christian masses find themselves as if by a force of nature driven from a state of modest prosperity into the deepest misery. The Polish Jew is so deeply enmired in the teaching of the Talmud that any notion of a Christian society or a state based on the common good becomes impossible once the Jew gains the upper hand. The Polish Jew, precisely because of the influence of the Talmud, is universally a force for corruption and destruction. Wherever one finds elements of dissatisfaction which threaten to overturn the Christian social order, Jews jump to the forefront of the movement and adopt the role of agitator. Jewish agitators can be found in leadership roles throughout the socialist movement. In Vienna and Pest, the leadership of the socialist movement is entirely in Jewish hands.⁴⁰

Jewish business practices are incompatible with Christianity because:

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Christianity postulates higher moral standards than Jewish theories, which because of their arrogant notion that all nations are destined to be slaves of the chosen race, must of necessity undermine the basis of any Christian society. This contempt for the moral postulates of Christendom has allowed the Jews to accumulate unheard of riches and it must likewise lead inexorably according to its own logic to the impoverishment of Christian people everywhere. The Christian peoples have become in fact slaves of the Jews.⁴¹

At the heart of this conflict are two different attitudes toward work.

What the Christian earns by the sweat of his brow, the Jew lays hold of via usury, fraud, and cheating the worker out of a decent wage, and he squanders the money he appropriates in luxury and wretched excess. Confronted with these excesses, the moral consciousness of the working class finds itself consumed with rage, and since the government and the legislature provide no protection against the usurious and exploitative Jews and their lackeys, the people take to the streets. That is the meaning of anti-Semitism and the uproar it is now causing. We see in this a kind of economic self-defense and the moral defense mechanism of the exploited. It's a sign to the government and the legislature that the necessary legal protection isn't there, and a sign that the administration and the legal system aren't offering the assistance that they need to offer. Anti-Semitism is a serious and ultimate warning to the ruling class. If this warning is ignored, if the ruling class thinks that they deal with the people with bayonettes, then we are heading toward a revolution that is going to make the Reformation and the French revolution look like child's play by comparison.⁴²

The Jew is taught to avoid work and cheat the goyim whenever possible. The Christian on the other hand, learns:

that "Man is born to work, as the bird is created to fly." The Catholic Church raised the nations under her care to be workers and made earning by work the foundation of our civilization. There is only one way of earning a living which is worthy of respect and esteem, and that is earning a living by toil, whether that entails labor of a physical or an intellectual sort. It makes no difference whether this labor takes place on the lowest rung of the economic ladder among day-laborers or among the professions of the elite. In doing this the Church erected civilization upon an entirely new foundation. The pagan world proposed a life lived at the expense of others (slavery); Judaism preached preferential treatment for its own people, but permitted the exploitation and practicing usury on alien nations. And until this day Jewish business practices exhibit this dual nature. On the one hand, we see concern for the family and for his fellow Jew, but on the other a totally heartless exploitation via usury of the goyim, which becomes the source of the wealth accumulated by Jewish billionaires.⁴³

The Christian and the Jewish economic systems are fundamentally incompatible because they are based on fundamentally different first principles. The Jewish economy is based on usury and the notion, as Shylock put it, that coins can copulate; the Christian system is based on the belief that labor is the source of all value. That belief had already found expression one year before the appearance of Ratzinger's book in *Rerum Novarum*, Pope

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Leo XIII's encyclical on the condition of the working classes. In *Rerum Novarum* the pope uses his understanding of private property to endorse what amounted to a labor theory of value, claiming that property come into existence when man applies labor to creation. Property and labor, in other words, are two sides of the same coin:

The fact that God has given the earth for the use and enjoyment of the whole human race can in no way be a bar to the owning of private property. For God has granted the earth to mankind in general, not in the sense that all without distinction can deal with it as they like, but rather that no part of it was assigned to any one in particular, and that the limits of private possession have been left to be fixed by man's own industry, and by the laws of individual races. Moreover, the earth, even though apportioned among private owners, ceases not thereby to minister to the needs of all, inasmuch as there is not one who does not sustain life from what the land produces. Those who do not possess the soil contribute their labor; hence, *it may truly be said that all human subsistence is derived either from labor on one's own land, or from some toil, some calling, which is paid for either in the produce of the land itself, or in that which is exchanged for what the land brings forth (my emphasis).*⁴⁴

While "that which is required for the preservation of life, and for life's well-being, is produced in great abundance from the soil," abundance from nature cannot come into being without human labor, which is to say, "not until man has brought it into cultivation and expended upon it his solicitude and skill." The right to property, in other words, derives from labor because by labor "he makes his own that portion of nature's field which he cultivates, that portion on which he leaves, as it were, the impress of his personality; and it cannot but be just that he should possess that portion as his very own, and have a right to hold it without any one being justified in violating that right." Labor transforms creation. "For the soil which is tilled and cultivated with toil and skill utterly changes its condition; it was wild before, now it is fruitful; was barren, but now brings forth in abundance." Because of the application of human labor, creation takes on a personal stamp. In fact, "That which has thus altered and improved the land becomes so truly part of itself as to be in great measure indistinguishable and inseparable from it." As a result it is only just "that the fruit of a man's own sweat and labor should be possessed and enjoyed by the man who expends that labor," because just "As effects follow their cause, so is it just and right that the results of labor should belong to those who have bestowed their labor."

Property, in other words, derives from human labor. It does not lose its communal aspect because property derives from creation as well, and creation was intended for the good of the human race by God. The Christian and Jewish economic systems are incompatible because the Christian is taught to put in an honest day's work, whereas the majority of German-

Polish Jews make their a living by exploiting their neighbors:

Jewish commerce can be characterized by two manifestations: 1) it is based on the exploitation of the work of others without any productive activity of its own and 2) it is characterized by gambling and speculation on the differential in values as the way to achieve riches. The Christian view is the exact opposite. Christianity ensures decency in commerce by promoting honest toil or by promoting honest inheritance. Christianity forbids the exploitation of his neighbor through excessive economic power, and insists on the subordination of the good of the individual to the common good as well as concern for the economically vulnerable. There is a direct contradiction between Christianity and Judaism, and any Christian community which allows the unrestrained exercise of Jewish business practices is committing suicide.⁴⁵

Because of the Jewish aversion to work and their equally pronounced inclination to speculation, banks in Austria have become casinos and dens of usury, and the Austrian businessman is nothing more than a stock market speculator or a shopkeeper. The Austrian press is nothing more than an extortion racket. Political life is calculated according to financial profit, and the state has become nothing more than an agent of the powerful, oblivious to the fact that the Christian ideal demands the dedication of the individual to the common good and especially for the protection of the weak.

Ratzinger claims that:

It is impossible to discern any interest in the common good in Jewish business practices. Everything is made to serve shameless Egotism. The house of Rothschild in Vienna enriches itself by fastening on the nickels and dimes of the poor in the capital, by driving up the price of coal because the freight charges they can levy as matador of the North Line [railroad], the main heating material in the Austrian capital. The Jew Reitzes, the major stockholder in the Viennese Horse Line, considers that company his own private extortion racket. The Danube Steamship Line in Austria and Lloyd's in Triest are more interested in serving the interests of Jewish financial houses than Austrian commerce.⁴⁶

Because of their mastery of the system of usury, the Jews dominate political finance. Next to state credit the easiest method by which Jews enrich themselves at the cost of the common good is the stock market. The Jews augment their control of the political process through bribery. Jews are corrupters of culture because the Jews are in general corrupters of morals:

Seduction and crime are the main components of Jewish commerce. When the scions of wealthy families go astray, the easiest way to find the culprit responsible is to seek him among the Jews. The Jew supplies riding and wagon horses, equipage and dogs; he encourages the acting out of all base desires and the adoption of degenerate lifestyles; he is the fence and the pimp. Once he has established his influence over his rich young protégé, he encourages him to speculate on the stock market in order to win back the money he squandered on his vices. In this way the Jew brings about his complete ruin in a few years, which is when his

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fortune ends up in hands of his Jewish seducer. Anyone who is familiar with the realities of social life in Paris, Vienna, and Pest sees this sort of thing all the time. These seductive arts are closely allied with prostitution. Every aspect of trafficking in young females is firmly in Jewish hands and organized on an international basis. It's only a short step from this immoral trafficking to criminal activity. When it comes to embezzlement, misappropriation, fraud, usury, blackmail, etc., the Jew is involved to a much greater percentage than the Christian.⁴⁷

The situation is worse in Hungary than in the German-speaking world:

Insofar as the Hungarian Jew lacks all moral compass, he also tries to spread immorality in Christian circles, and he speculates systematically on the bad habits and passions of his neighbor in order to exploit him more fully. He opens hole-in-the-wall bars in order to ensnare his victim with intoxication. He opens fly-by-night stores in order to deceive his customers into buying cheap inferior goods. He deceives his customers with installment payments in order to trick him into paying 100 percent compound interest. He owns all of the bars in Austria and has turned them into dens of iniquity. He is always willing to lend money, but only to practice usury. The Jew is a tax farmer, which allows him to cheat the state out of its revenues, while at the same time cheating the taxpayer as well. He even cheats his own employees. Woe to the Christian waiter in a Jewish establishment! He will be cheated by false receipts until he has to pawn his last piece of clothing. Christian maids who work in Jewish homes invariably become Jewish whores. . . . The ruthless activity of the Jews has led to a situation in which all of the riches of Hungary have ended up in their hands in two decades. At the beginning of the last decade, when the exploited farmers rose up against their oppressors, all the Hungarian Jewish usurers wanted to talk about was humanity. The same people who in cold blood ruined their victims with usurious loans and drove entire families from their homes and plundered entire districts, these same people have the gall to appeal to "humanity."

Ratzinger never tired of pointing out that the crux of the Jewish Question is moral, not racial:

The quintessential nature of the present day Jewish Question can only be found in the moral inferiority of the Jewish worldview in relation to . . . the role which morality plays in economic life. The only form of limitation which they recognize in business is the penal statute. If an opportunity to make money appears whose profit seems greater than the penalty imposed by the law, the Jew doesn't hesitate to treat the law with contempt.

The crash of 1873 brought all of these submerged issues out in the open, forcing the impartial observer to conclude that something was wrong with the system as it existed throughout Europe. The net result of Jewish business practices was the Crash of 1873, and the net result of the crash was that "The wisdom of *laissez faire* has been shaken to its foundations."⁴⁸ Ratzinger proposes the moral alternative to Darwin's doctrine of economic natural selection when he claims that, "In a contest between two rival world views the worse element often wins the upper hand and becomes the cause for the

moral corruption of the people and the collapse of the state.³⁹ The conclusion is clear: "Any ethnic group which is totally lacking in moral restraint when it comes to economic life will end up the winner in any struggle for existence. This is the secret of Jewish success in Austria-Hungary."⁵⁰

Christian businesses can't compete against methods like this and as a result Jewish supremacy was guaranteed. It isn't talent but rather sharp business practices; it isn't productivity but rather deception and the art of exploitation which earns the Jew his money and ensures his position of dominance among the big capitalists.⁵¹ Cruelty in economic life is one of the primary characteristics of that nation which has the most usurers and cutthroats.⁵² Since the gospel promotes freedom, the Jews, of necessity, must promote every form of slavery. That includes the white slavery of prostitution which was rampant in Hungary and Galicia at the time Ratzinger wrote his book. To substantiate his claim, Ratzinger cites the Wiener Deutscher Volksblatt, which claims that: "It is of course superfluous, to append the ominous little word 'Jewish'" to their account of prostitution in those countries. The same article goes on to claim that "White slavery in all of its forms, from the details to big business, from the abduction from the place itself to the exporting of these women to places like Buenos Aires and Constantinople was and remains most decidedly an operation run by the Jewish race."⁵³

The Jews promote other forms of slavery as well, namely,

modern wage and debt slavery, which is the inevitable result of mobile capital. As a result, modern Jewry is determined to enable the mobility of capital in all its forms. They have been so successful in this regard that nowadays it's difficult to find Banks or other credit institutions run by Christians. In order to enhance the mobility of capital the Jews need the press, which has as its purpose praising the accumulation of capital into fewer and fewer Jewish hands as progress and the flowering of the national economy. The attention of the public gets focused on a few cleverly promoted agitators who rail against the Church and the religious orders, against the clergy and the property which the church possesses, against the aristocracy and the military, in shore against everything which inhibits the spread of Jewish hegemony.⁵⁴

Ratzinger situates the worker question (*die Arbeiterfrage*, as articulated by Bishop Ketteler) in the context of the Jewish Question (*die Judenfrage*, as articulated by Bruno Bauer and Karl Marx and legions of writers after them). He goes on to claim that "Every single worker, male or female, in this industry [clothing] is the modern day equivalent of the helot. Hunger, need, misery leading to immoral consequences are all to be considered the sad lot of these victims of Jewish competition."⁵⁵

Like *Civiltà Cattolica*, Ratzinger ends his book with a program of reform. The first step toward reform is the enforcement of usury laws:

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The legislatures must now criminalize all of the fraud and exploitation which now has established itself under the rubric of free enterprise. The state needs to prosecute in a public manner all forms of usury and fraudulent exploitation. The current laws against usury and fraud are much too one-sided, and they do not correspond either to the experience or the plain sense of Christian jurisprudence.⁵⁶

Like *Civiltà*, Ratzinger feels this involves expropriating the Jewish expropriators: "All of the money which they have earned through state-sanctioned usury and the exploitation of the worker must be returned to the people." If the state does not act according to Christian principles "contagious usury" will spread and infect the entire population bringing about further decline in public morality:

The disease of our culture consists in the cancerous spread of the Jewish-heathen worldview over the moral norms of Christendom. The inferiority of the Jewish-heathen worldview to Christianity must be made apparent, by the actions of the Christian state. . . . In these ecclesial regulations we can discern a template for future reform. The Jews must once again learn to subordinate themselves to Christian social reform and to conform their business practices to Christian norms.⁵⁷

That entails putting an end to the fiction that Jews can be citizens in a Christian country. Because Jews are constitutionally aliens in every country in which they reside, Jews should not be allowed to become civil servants, lawyers, or teachers, and they should not be allowed to serve in the army. Jews should not be allowed to hire Christian servants, a prohibition which came into effect during the early centuries of the Christian era but which by Ratzinger's day fallen into desuetude, with disastrous consequences for the girls who worked as maids in Jewish houses:

The necessity of a prohibition like this for the future can be ascertained by a glimpse into the current situation in Austria. There is hardly a Jewish youth to be found in Vienna or Hungary, who doesn't brag about having sex with a Christian shiksa before he marries a Jewish woman. The head of the Viennese secret police told the author of these lines a decade ago, that this situation was already out of control then. The basis for this corruption of Christian women could be found in the conditions of their employment as domestics. Chamber maids, governesses, servants, seamstresses in Jewish factories—all of them regularly become victims of exploitation and corruption. In Jewish circles no one considers anything wrong with this sort of behavior, and unfortunately, this confusion of values is now spreading to Christian circles. The Jewish seducers normally take care of unwanted pregnancies by shipping their bastards off to orphanages for the modest fee of 220 florins. This arrangement relieves the father of any future responsibility. From this short glimpse anyone should be able to see how this corruption like a cancerous growth spread throughout the entire social body, so that it threatens to succumb to this unholy plague.⁵⁸

The only hope for reform lies in a return to Christian principle because:

Intoxicated by revolution, Christian nations have pawned their most precious

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jewel—the teaching and the grace of their savior—and have rejected their most precious asset, their character as redeemed children of the Lord, by abandoning the Christian basis for their culture. The Lord as a result has let the Christian nations go their own way, which has led to the debt bondage which flows from the obdurate hegemony of capital, which will end up concentrated in the hands of a small minority of Jews and their lackeys.⁵⁹

Christian social conscience needs to intervene at this crucial point and re-impose the limitations on the Jews which proved successful in maintaining the social order for the 1800 years which preceded the French Revolution. “Business practice must be made to conform once again to Christian morals.”⁶⁰ “The entire German economic system needs to be revitalized through the application of Christian principles; Jewish usury and Jewish corruption need to be overcome.”⁶¹

The main obstacle to reform is Christian cowardice:

The educated classes don't have the guts to take on the Jewish question. These “heroes” are even afraid to have the word “Jew” pass over their lips in public. We have reached the point where education and cowardice in the face of Jewish transgression are two words for the same thing.⁶² . . . There would be no Jewish Question if the educated elites among the Christian peoples hadn't betrayed their own principles. At a time when Jews stand by even their own criminal element, we see Christian politicians and legislators betraying their own Christian faith on a daily basis and vying with each other to see who has the privilege of harnessing himself to the triumphal car of the Jews. In Parliament no Jew need defend another Jew, when their Christian lackeys do that for them.⁶³

This needs to be done not only in the interests of the Christian nations; it is also in the interest of the Jews themselves because:

only when the sane principles of Christian reform have been put in place, can we hope to disarm the specter of anti-Semitic racial hatred. It is only then that we can hope to avoid the path which leads to violent men taking the law into their own hands. Those who think that a small minority of Jews with the help of the power of the state can solve this problem are deceiving themselves. The hegemony of social corruption has ended in every age in terror. This solution is not longer plausible. Either we are going to have Christian reform in our future or we are going to have the reign of racial hatred. The Jews should be under no illusions about what they can expect from the racial hatred that is waiting for them in the near future. Their arrogance is going to turn quickly into bitter disappointment in the future.

Like *Civiltà's* series on the Jewish Question, Ratzinger ended his book with a warning of what would follow if his call for reform were not heeded. Like *Civiltà's* warning, Ratzinger's found uncanny fulfillment less than 50 years in the future:

A reaction against the jewification of our culture is now building momentum among the common man. That movement is hardly perceptible today, but it is going to grow like an avalanche. That movement would be irresistible at this very

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moment if it weren't lacking a *Fuehrer*.⁶⁴

Endnotes

- 1 Niall Ferguson, *The House of Rothschild: Money's Prophets, 1798-1848*, (New York: Viking, 1998), vol. II, p. 19.
- 2 Ferguson, *Rothschild*, vol. II, p. 19.
- 3 In its three part series on the Jewish Question which appeared in the fall of 1890, *Civiltà Cattolica* provided a list of the main works, published, in the past few years, especially in France: *La France juive* [Jewish France], 2 vols; *La fin d'un monde* [The End of a World]; *La dernière bataille* [The Last Battle], by Edouard Drumont, Marpon and Denta, Paris; *Le juif* [The Jew], by G. des Mousseaux, Watelier; *Études historiques* [Historical Studies], by Van der Haeghen, Palmé; *L'entrée des Israélites dans la société française* [The Entry of the Israelites into French Society], Lecoffre; *Les juifs nos maîtres* [The Jews, Our Masters], by Abbé Chabautey; *Rome et les juifs* [Rome and the Jews], by Lémann; *La question juive* [The Jewish Question], by Rev. Fr. Ratisbonne, Douniol; *Les juifs, rois de l'époque* [The Jews, Kings of the Epoch], by Toussenet, 2 volumes, Marpon; *La France n'est pas juive* [France Is Not Jewish], by Reynaud, Marpon; *Le juif* [The Jew], by Kraszewski, Dentu; *Pauvre Moschko* [Poor Moschko], by Franzos, Floro; *Il sangue christiano nei riti ebraici della moderna Sinagoga* [Christian Blood in the Hebraic Rites of the Modern Synagogue], Prato, Toscana, Giachetti & Co.; *La juiverie* [Jewry], by G. de Pascal, Blériot; *La piaga ebraica* [The Hebraic Plague], by Dr. Giov. De Stampa, Treviso; *Le juif, voilà l'ennemi* [The Jew: Here's the Enemy], by Martinez, Savine; *La preponderance juive* [The Jewish Preponderance], by Abbé Joseph Lémann, Lecoffre; *La politique israélite* [Israelite Politics], by Kimon, Savine; *Socialismo, discussioni* [Socialism: Discussions], by Dr. Don Sebastiano Nicotra, Rome, Tip. Della Pace; *La Haute Banque et les Révolutions* [The High Finance and the Revolutions], by Auguste Chirac, Savine; *La Russie juive* [Jewish Russia], by Kalixt Wolski, Savine; *L'Algérie juive* [Jewish Algeria], by Georges Meynié, Savine; *Le mystère du sang chez les juifs* [The Mystery of Blood Among the Jews], by Desportes, Savine.
- 4 Ferguson, *Rothschild*, Vol. II, p. 264.
- 5 Ferguson, *Rothschild*, Vol. II, pp. 18-9.
- 6 Ferguson, *Rothschild*, Vol. II, p. 262.
- 7 Ferguson, *Rothschild*, Vol. II, p. 263.
- 8 Ferguson, *Rothschild*, Vol. II, p. 263.
- 9 Ferguson, *Rothschild*, Vol. II, p. 264.
- 10 Ferguson, *Rothschild*, Vol. II, p. 265.
- 11 Culture Wars, November 2011. All citations of the *Civiltà Cattolica* article on

the Jewish Question are taken from this translation. Translation can be found on the web at: <http://www.biblebelievers.org.au/jql.htm>

12 Michel Riquet, *Augustin de Barruel*, (Paris: Beauchesne, 1989), p. 133.

13 Ibid. Il s'agit, dit-il, de la secte judaïque. Elle "prodigue son or et son argent pour soutenir et multiplie les modern sophistes, les Francs-Maçons, les Jakobins, les Illumines."

14 Ibid. et de reduire le restant de ceux-ci a un vrai esclavage."

15 "tout la bassesse et tous les vices du judaisme,"

16 Riquet, p. 134. *Le circonstances ne me permettent pas de communiquer avec M. Simonini, j'ai eu devoir garder sur l'objet de sa lettre un profond silence, bien assure qu si l'on m croyait, je pourrais occasionner un massacre de Juifs, et qu si l'on ne me croyait pas, autant et mieux valait n'avoir rien dit."*

17 Daniel Pipes, *Conspiracy* (New York, The Free Press, 1997), p. 75.

18 Ibid.

19 Ruggero Taradeland Barbara Raggi, (*La Segregazione amichevole: "La Civiltà Cattolica" e la questin ebraica 1850-1945*). (Roma: Editori Riuniti, 2000), p. 21.

20 Taradel, p. 52.

21 Taradel, p. 40.

22 Taradel, p. 40.

23 Joseph Kardinal Ratzinger, *Salz der Erde: Christentum and katholische Kirch an der Jahrtausendwende* (Stuttgart: Deutsche Verlags-Anstalt, 1996), p. 17, my translation.

24 Ratzinger, p. 47.

25 Robert Waldhausen (Georg Ratzinger) op. cit. The German Wikipedia page on Robert Waldhausen identifies him as Georg Ratzinger. Their explanation follows:

Georg Ratzinger werden aber auch die beiden nachfolgend genannten pseudonym veröffentlichten antisemitischen Hetzschriften zugeschrieben. Zwar kann Ratzingers Identität mit deren beiden Verfasserpseudonymen nicht anhand schriftlicher Zeugnisse belegt werden, jedoch gilt sie in der Forschung auf Grund von Indizien als gesichert und wird nicht in Frage gestellt. Unter dem Pseudonym „Dr. Robert Waldhausen“ erschien 1892 das Buch *Jüdisches Erwerbsleben. Skizzen aus dem sozialen Leben der Gegenwart*, in dessen Einleitung es z. B. heißt: *Die Emanzipation der Juden [...] konnte nicht anders, als zerstörend und zersetzend auf die ganze christliche Gesellschaft wirken.* Und 1897 wurde unter dem Pseudonym „Dr. Gottfried Wolf“ ein antisemitisches Pamphlet mit dem Titel *Das Judentum in Bayern. Skizzen aus der Vergangenheit und Vorschläge für die Zukunft* publiziert. Auch in anderen, nicht pseudonym veröffentlichten Schriften Ratzingers, z. B. in *Die Volkswirtschaft in ihren sittlichen Grundlagen*, und in seinen Parlamentsreden lassen sich antisemitische

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Äußerungen und Tendenzen finden.

26 *Civiltà Cattolica*, The Jewish Question, November 1890.

27 Robert Waldhausen (Georg Ratzinger) *Juedisches Erwerbsleben: Skizzen aus dem sozialen Leben der Gegenwart*. (Passau: Verlag von Rudolf Abt, 1892), p. 3.

28 Georg Ratzinger, op. cit., p. 84.

29 Ratzinger, p. 77.

30 Ratzinger, p. 2.

31 Cf. E. Michael Jones, *The Jewish Revolutionary Spirit* (South Bend, IN: Fidelity Press, 2009), pp. 676ff.

32 Ratzinger, p. 3.

33 Ratzinger, p. 9.

34 Georg Ratzinger, p. 5.

35 Ratzinger, p. 5.

36 Roth, p. 34.

37 Ratzinger, p. 12.

38 Ratzinger, p. 4.

39 Ibid.

40 Ratzinger, p. 32.

41 Ratzinger, p. 29.

42 Ratzinger, p. 30.

43 Ratzinger, p. 7.

44 Marr, Sieg, p. 43.

45 Ratzinger, p. 7.

46 Ratzinger, p. 10.

47 Ratzinger, p. 84.

48 Ratzinger, p. 38.

49 Leo XIII. *Rerum Novarum*. Encyclical letter on Capital and Labor, May 15, 1891. http://www.vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html.

50 Ratzinger, p. 10.

51 Ratzinger, p. 12.

52 Ratzinger, p. 14.

53 Ratzinger, p. 27.

54 Ratzinger, p. 32.

55 Ratzinger, p. 53.

56 Ratzinger, p. 15.

57 Ratzinger, p. 39.

58 Ratzinger, p. 57.

59 Ibid.

60 Ratzinger, p. 15.

61 Ratzinger, p. 77.

62 Ratzinger, p. 76.

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63 Ratzinger, p. 77.

64 Ratzinger, pp. 75-6.

65 Ratzinger, p. 84.

66 Ratzinger, p. 90.

67 Ratzinger, p. 85.

68 Ratzinger, p. 84.

69 Ibid.

Chapter Eighty-Seven

Churchill and the Jews

Randolph Churchill died on 24 January 1895, after returning with his wife from a round-the-world cruise which began in 1894. His legacy to his sons amounted to 75,971 pounds gross thanks to Natty Rothschild's financial assistance in buying stock in South American mining ventures and South African investments, but the entire sum was swallowed up by debts. At the time of his death, Randolph owed "the astonishing sum of 66,902 pounds" to the Rothschilds alone.¹

At the time of his father's death, Winston's reputation could best be described as "genealogically precarious, and it is in this familial context of widespread degeneracy and disreputability that his own finances, friends, and way of life must be set and understood."² Because of his father's profligacy, the only tangible asset Winston inherited was Randolph's relationship with the Rothschilds and other wealthy Jewish financiers. On New Year's Day 1901, Winston bragged that "in less than two years he had made 10,000 pounds by his own unaided efforts, from his journalism, his lectures and his books."³ A man less afflicted with his own "sense of destiny"⁴ would have given the mentors and backers who were responsible for his rise more credit, but that would have been politically imprudent because it would have revealed the people who were paying Winston's bills and in whose interest he labored in public office.

In his hagiographic biography of his father, which appeared in 1906, Winston Churchill mentioned the precarious nature of Randolph's finances, but he suppressed all mention of the Rothschilds, in spite of the fact that Randolph's boyhood chum Natty was his main creditor. Rothschild, in fact, rates no index mention at all. Winston suppressed his father's relationship with Natty Rothschild because his relationship to the same man would be crucial in launching and maintaining his own career. After Randolph's death, Winston became a protégé of Natty Rothschild and the same Jewish moneylenders who had financed his father's career.

One of those influential Jewish moneylenders was "Lord Randolph's old friend," Sir Ernest Cassel, who:

was widely disliked and distrusted as a "cosmopolitan financier," whose loyalty was neither to party or nation, but only to profits. As a German, a Jew, a millionaire, and a friend of King Edward VII, he seemed a classic example of the unscrupulous and unpatriotic plutocrat who was disfiguring public life, an irresponsible wire-puller who had poor politicians in his pocket.⁶

It was into Cassel's hands that Winston entrusted the 10,000 pounds he had earned as a journalist, but the interest which Cassel's efforts garnered was no match for Winston's extravagance, and so by 1906 he was in dire financial straits once again. Like his father, Winston needed an official salary. Like his father, Winston was accused of economically motivated political opportunism. His support for free trade and unionism when it came to Ireland was attributed to the views of his Jewish patrons. Cannandine accuses Winston of "crossing the floor" for financial gain.⁷ Like his father, Winston "sought the society and support of rich [Jewish] financiers, in particular Lord Randolph's old friend, Sir Ernest Cassel."⁸

From the 1890s until the Second World War, he seems almost never to have been out of debt. Even (indeed especially) for a man of Churchill's aristocratic self-confidence, this was a precarious base from which to launch what soon became a flamboyant and controversial career. By the time Churchill departed for active service on the Western Front, the loss of his official salary, combined with his accumulated debts, meant he was effectively dependent on the "unlimited credit" of Sir Ernest Cassel.

In 1922 Lord Alfred Douglas claimed that Churchill, "this ambitious and brilliant man, short of money and eager for power," was "Cassel's creature" and that he "had given a deliberately false account of the Battle of Jutland in exchange for a large sum of money." Churchill sued Douglas for libel, but in the course of the trial, which Douglas lost, testimony emerged that "Cassel had indeed paid for Churchill's drawing room,"⁹ confirming the impression that Churchill's rise would have been impossible without the financial support of Jewish backers.

After winning his case against Douglas, Churchill acquired Chartwell Manor, whose upkeep posed another serious "drain on Churchill's meager resources."¹⁰ That drain was complicated further when Churchill "lost most of his American investments"¹¹ in the stock market crash of 1929. This meant that:

Throughout the 1930s, Churchill's finances were in a truly parlous condition. Chartwell continued to absorb money like a sponge, and this combined with the expenses associated with his children (in particular their education and the payment of their debts) meant that by 1931 his overdraft stood at 9,500 pounds. Seven years later a renewed slump on Wall Street left him owing his brokers 18,000 pounds. Stringent economy measures were again introduced, but his creditors were so pressing that Churchill felt compelled to put Chartwell on the market, and even thought of quitting public life altogether.¹²

At this point another Jewish financier stepped forward to bail Winston out of the hopeless financial situation which his inherited disposition to extravagance had incurred. In 1938, Sir Henry Strakosch, an Austrian-born financier and South African mining magnate, "took responsibility for all his debts."¹³ Cannandine is quick to wag his finger at David Irving, who was first to reveal this fact,¹⁴ claiming that "this does not mean that Churchill was the creature of an international conspiracy of money lenders,"¹⁵ when it seems to prove just that. The Strakosch

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"loan" came at precisely the right moment, i.e., when Churchill "was seeking to rouse parliament and the nation to the Nazi threat,"⁶ and when his reputation as a deadbeat who was incapable of managing his own finances "must have been a political liability,"⁷ which rendered him incapable of getting England into another suicidal war with Germany.

As of the beginning of Winston's political career in the 1890s, the Rothschilds were willing to lend to foreign governments like Egypt, but only if they knew that the royal navy was willing to enforce the usurious contracts they negotiated under their protection. Natty became as a result a strong proponent of a big navy. Hence, it should come as no surprise that his protégé Winston should end up as Lord of the Admiralty, where he had at his disposal at a cost of "nothing or next to nothing . . . the Admiralty yacht, *Enchantress*, which he used as a floating hotel, to entertain officially, to reciprocate the hospitality of his plutocratic friends and to cosset his family."⁸

The marital alliances which two generations of the Churchill family concluded to shore up their debt-burdened finances found their political correlative in the termination of enmity between Britain and the United States, an alliance known as the Great Rapprochement. The Great Rapprochement bespoke "a fundamental shift in the relationship between Great Britain and the United States in the late 19th century,"⁹ which recognized that their social and political objectives had converged and led "the two nations to put aside their troubled history and . . . appreciate their common goals and interests."¹⁰ America's emergence as an imperial power also played a role in the Great Rapprochement, as did the huge investment of English capital in America which took place over the 19th century, as did the English language, as Bismarck noted. Historian Hajo Holborne regarded the establishment of close Anglo-American relations as probably "by far the greatest achievement of British diplomacy in terms of world history."¹¹ The Great Rapprochement was accomplished by what Guido Preparata calls the "clubs."

By "clubs" and "elites" I mean the established and self-perpetuating fraternities that ruled the Anglo-Saxon commonwealths: these were (and still are) formed by an aggregation of dynasts issued from the banking houses, the diplomatic corps, the officer caste, and the executive aristocracy, which still remains solidly entrenched in the constitutional fabric of the modern "democracies." These "clubs" act, rule, breed and think like a compact oligarchy, and co-opt the middle class to use it as a filter between themselves and their cannon fodder: the commoners. . . . In the 20th and early 21st centuries, it is the Anglo-American clubs that have carried the day, and their tenure has little to do with human rights, free markets and democracy, regardless of what they may shamelessly say.²²

At some point around the turn of the century, the Anglo-American clubs decided that Germany was a threat to Anglo-American world financial hegemony. The greatest single factor which contributed to the Great Rapprochement was Germany's meteoric rise to the status of world power and England's consequent need to turn to other "island" nations to form an alliance that would oppose the

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emergence of a new threat on the continent which seemed even more formidable than Napoleon.

By 1900 it had become clear to the foreign office that Germany had surpassed Britain as an industrial powerhouse. In the less than 30 years since German unification in 1871, Germany had digested England's economic accomplishments in both the theoretical and practical spheres and improved upon them in a way that allowed Germany to surpass England in any conceivable basis of comparison. Preparata describes the Second German Reich as

An unstable compound: a coupling of feudal hunger and formidable scientific achievement. After all this was the uncouth matrimony of the unfailing Prussian armies with the best music, physics, chemistry, political economy, historiography, philosophy, and philology the West had to offer.²³

The Germans "had the opportunity to snap up a panoply of technological know-how from their European counterparts, and perfect it dramatically, without the encumbrances and sunken costs of pioneering."²⁴

As a result, Germany had become

a nation of 70 million. . . that produced 15 percent of the world's goods to Britain's 14 percent—and twice as much steel. Germany was the most powerful nation in Europe and, after Russia, the most populous. In 1870 Germany had crushed France in six weeks. Her army was the greatest fighting force on earth.²⁵

Germany attracted the attention of the British foreign office and the Anglo-American clubs when she made the fatal mistake of challenging Britain's hegemony over the seas by building a blue water navy. In deciding to challenge the supremacy of the British Navy, Kaiser Wilhelm "had committed one of the great blunders in German history. . . . The building of the German fleet. . . ended the century of Splendid Isolation."²⁶

By 1898, the German Reich began to expand the Imperial Navy in earnest; by 1906 it had the second biggest fleet in the world. In 1900-02 Britain shifted her strategic focus away from the out-moded Russian intrigues in Central Asia, and the petty African jealousies versus France, and narrowed it on the progressive encirclement of Germany.

The Kaiser made this fateful decision after reading *The Influence of Sea Power upon History*, a book which U. S. Naval Captain A. T. Mahan had written in 1890. Mahan claimed that the Royal Navy's control of the seas had led to Napoleon's defeat and the creation of Great Britain as the world's premier superpower.²⁷ Confirmation of the truth of Mahan's thesis occurred a few years after the Kaiser read his book, when the British Navy prevented German ships from aiding the Boers in South Africa. After creating world's third largest colonial empire, the Kaiser woke up to the fact that the British could end it overnight with a naval blockade. The Kaiser was now aware of:

how foolish it was to begin our colonial policy a decade ago without having a fleet. Our trade is locked in a life-and-death struggle with the English, and our

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press boasts loudly of this very day, but the great merchant marine which plies the oceans of the world under our flag must renounce itself to complete impotence before their 130 cruisers, which we can proudly counter with four.²⁸

The net result of Germany's humiliation during the English blockade of the Transval and the Free State was the Kaiser's decision to build a naval fleet which could "defend the North Sea and Baltic coasts, break any blockade, protect the trade on which Germany depended for a fourth of her food."²⁹

By the end of the 19th century, "Wilhelm II was enthusiastically supporting the project of expanding the Imperial Navy,"³⁰ with little or no regard for the fact that: "German intrusion upon the waters of the North Sea . . . constituted" not only "a grave worry" for Britain but a check "upon the very means of British imperial management," the hallowed "Royal Navy," which had been the chief instrument of Great Britain's conquest of the world since the prophetic Elizabethan days of John Dee, the Queen's astrologer, cartographer, occultist and intelligence officer.³¹ The "Two-Power Standard," which specified that "the Royal Navy must be 10 percent stronger in capital ships than the combined fleets of the next two strongest sea powers,"³² had been written into British law by Lord Salisbury in 1889, and now it was a reason for war with Germany, who had passed the German equivalent of the British statute, the German Naval Laws of 1898 and 1900, ten years later. When the Kaiser began building his fleet of battleships, he "forced the Royal Navy to bring its most powerful warships home from distant waters to build up the Home and Channel fleets."³³ This trajectory leading to inevitable conflict began in earnest when Germany achieved unification via defeat of the French in 1871. At this point, "a united Germany stretching from France to Russia and from the Baltic to the Alps had emerged as the first power in Europe."³⁴

Queen Victoria died on January 22, 1901. While attending her funeral, Kaiser Wilhelm, who was her eldest grandson and infatuated with all things English, proposed an Anglo-Germanic alliance which would have conceded the seas to Britain and the European land mass to Germanic hegemony. Victoria's successor King Edward VII rejected the proposal out of hand because the cornerstone of English foreign policy, as Churchill had pointed out, had always been opposition to whichever power achieved dominance on the continent. According to Churchill: "Britain's policy for 400 years has been to oppose the strongest power in Europe by weaving together a combination of other countries strong enough to face the bully."³⁵

In 1904, Halford Mackinder, a professor at the London School of Economics, presented a paper entitled "The Geographic Pivot of History" at the Royal Geographical Society.³⁶ In his paper, Mackinder claimed that the key to world dominance involved controlling the "heartland" or "pivot" of the Eurasian land mass, or as he put it, "whoever rules the heartland, rules the world island; whoever rules the world island rules the world."³⁷ Traditionally, England had prevented any European nation from ruling over the heartland by the threat of naval blockade.

Mahan claimed that Britain's blockade of France during the Napoleonic wars was the key factor leading to Napoleon's defeat and Britain's subsequent rise to world hegemony.

The post-unification rise of Germany posed a new threat to English world hegemony, which became more grave after the Kaiser embarked upon his build out of the German fleet. Germany's rise posed two equally dire scenarios to English might: 1) an effective Navy and 2) an alliance with Russia. Either one of the alternatives would effectively destroy Britain's ability to impose a naval blockade on Germany, and that would allow Germany to control the "heartland" or "pivot" of the Eurasian landmass, and that in turn would spell the end of Britannia's world empire.

The solution to England's dilemma was summarized by the German term "*Einkreisung*," or encirclement; "in order to deter the emergence of this threatening rival on the heartland, she would have no alternative but to encircle the heartland in a permanent siege."³⁸ After 1900, the main goal of Britain's foreign policy was the destruction of Germany through a series of secret alliances with France on the west and, more importantly, Russia on the east. An alliance between Germany and Russia was Britain's latest and greatest nightmare, and it was to be prevented at all cost, because without the Eurasian landmass at its disposal as a source of food, Germany could be starved into submission by a naval blockade. The threat of starvation by British naval blockade forced Napoleon to mount his fateful attack on Russia in order to secure the wheat fields of the Ukraine to feed his people.

Beginning in 1904, Britain entered into a "pattern of alliances,"³⁹ which would bring about this encirclement. In 1904 Britain entered into the Entente Cordiale with France. According to this agreement, Britain agreed to send troops across the Channel if France were attacked by Germany. On January 16, 1906 "secret talks between British and French officers began," which "focussed on plans to send 100,000 British soldiers to the continent within two weeks of an outbreak of hostilities." In addition, Britain had promised to come to the aid of Belgium if her neutrality were violated. Britain made this promise knowing all of the details of the Schlieffen Blitzkrieg plan which had been bought "thanks to a traitor" for 60,000 francs.⁴⁰ Britain thus knew that the violation of Belgium's neutrality was inevitable. By 1906 the British General was involved in military maneuvers in Belgium which would allow the deployment of British expeditionary forces on the continent.⁴¹ In the midst of this ongoing process of *Einkreisung*, the Kaiser made futile attempts at his own version of rapprochement. In July 1905 he met with Czar Nicholas in Finland. Nicholas gave his approval to the treaty of Bjoerkoe, but it was never ratified, precluding Eurasian détente and ensuring the success of any naval blockade if war were to break out.

The Kaiser knew that a world class German navy combined with an invincible continental army meant the end of the British Empire. Soon the Germans

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started challenging the commercial hegemony which the British fleet enabled. Emboldened by his new fleet and the alliance he thought he had just concluded with Russia, the Kaiser sailed into the harbor of Tangier in 1905 and openly supported the independence of Morocco from France and Germany's right to trade with her. This direct challenge to both the British and the French empires led to plans for war. During the Tangier incident: "the First Sea Lord, Admiral Sir John Fisher, wrote to Lord Lansdowne, the foreign secretary, urging him to exploit the situation to foment war with Germany."⁴²

Two years after the Kaiser failed in his attempt to join Russia in an alliance, Britain succeeded. In 1907 Britain's foreign secretary Lord Edward Grey negotiated a treaty with Russia based on concessions in Asia that would bring Russia into war on the side of England if France were attacked. "The Great Game [in the East] had seemingly been brought to an end" and a war on two fronts predisposed against Germany.⁴³ Ever since he had been appointed foreign secretary in 1905 Grey had plotted in secret to lure the continental powers into a war in which they would destroy each other and leave Britain supreme and her empire intact. He did this without the knowledge of either the Cabinet or Parliament and in spite of popular revulsion at the excesses of the Boer war on a platform which called for "Peace, Retrenchment, and Reform."⁴⁴

What followed was the classic example of the arms race, with each side reacting to the provocation of the other side with another increasingly escalating provocation. Blind to the crisis which his decision to build a blue water fleet had created, the Kaiser "ordered his naval expansion accelerated."⁴⁵

Nothing could have better suited Natty Rothschild, who, as England's wealthiest and most influential proponent of a big navy, "had grasped early on the importance of increased naval construction" and "remained an enthusiast for naval construction even when it was obvious that the costs were likely to lead to higher taxes."⁴⁶ In 1908 Natty told his French relatives that "The strengthening of the Navy is always popular amongst all classes."⁴⁷ In the same year he "spoke publicly in favor of building eight dreadnought battleships at a large meeting at the Guildhall."⁴⁸

The Rothschilds' financial interests were tied up with a big navy in a number of different ways. The Royal Navy, as Palmerston had shown during the Don Pacifico affair, was always a willing tool when it came to collecting Jewish debt from recalcitrant foreign potentates unfamiliar with the sanctity of usurious contracts. But beyond that the Rothschilds were heavily involved in the arms race as well. In 1888 the London house of Rothschild issued 225,000 pounds of shares for the Naval Construction and Armaments Company.

Natty Rothschild wanted a big British navy, and he needed his protégé Winston to turn the German naval build-up into a *casus belli*. Winston's biggest assistant in this project was Kaiser Wilhelm. Oblivious to the dangerous reaction he had caused in Tangiers, the Kaiser made the same mistake twice when he sent

the gunship Panther into the harbor at Agadir on the Atlantic coast of Morocco on July 1, 1911. The Agadir incident led to the appointment of Natty Rothschild's protégé Winston Churchill as First Lord of the Admiralty.⁴⁹ As soon as he was installed, Churchill vowed to do everything he could to prepare Britain militarily for the "inescapable day of reckoning." The stakes were high. There could be no British Empire without a Royal Navy which ruled the waves, and it was precisely this hegemony over the high seas which the Kaiser's ill-fated naval build up was meant to challenge.

To meet that challenge, Churchill decided that it would be necessary to have a Royal Navy whose engines ran on oil rather than coal. To secure that oil, the British Navy needed access to the oil fields of the Middle East, in particular to the Caspian basin in the Eurasian heartland, and in order to gain access to Caspian Asian oil, Britain needed a beachhead on the Mediterranean. The Rothschild family had a candidate for that beachhead. It was known as Palestine at the time, and in granting Jews access to the plot of ground that Alexander Herzl in conversation with the Rothschilds was calling the Jews' ancestral homeland, Natty and Winston could collaborate in killing two birds with one stone. By establishing a beachhead in Palestine, Natty got access to the fuel necessary for his big navy, and he also got a homeland for the Jews. Britain's philo-Semitic Imperialists, people like Churchill and Lord Balfour and Lord Grey and the Milner group, for their involvement in the Palestine deal, got the cooperation of the Jews, who would insure that Palestine would remain under British influence once they were settled there. It was Winston's job to work out the details, which he did in collaboration with one of his father's old friends, Arthur Balfour who, like Lord Randolph, was a frequent guest at Tring. The Balfour Declaration of 1917, which established a Jewish homeland in Palestine, was addressed to Natty's son Walter. The text was prepared by Leo Amery, assistant secretary to the War Cabinet, and a close associate of Lord Milner, but in reality it was "formulated for the Rothschilds by the Rothschilds."⁵⁰

In November 1915, two years before the British government issued the Balfour Declaration, the *Manchester Guardian* claimed that:

recruits of the so-called Kindergarten—Milner's Club, also known as the Round Table—intimated that "the whole future of the British Empire as a Sea Empire" depended upon Palestine becoming a buffer state inhabited "by an intensely patriotic race." Indeed, Palestine was "the key missing link" that joined together the limbs of the British empire in a continuous stretching from the Atlantic to the middle of the Pacific.⁵¹

The Balfour Declaration claimed that the British government favored: "the establishment of a national home for the Jewish people and will use their best endeavors to facilitate the achievement of that object, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine." Churchill was one of the first

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political figures to recognize the principle of a Jewish homeland. His commitment to the Rothschild-sponsored Jewish state in Palestine was absolute.

Then as now, the logic of British foreign policy was based on the logic of capitalism. That meant that anyone who was in favor of "free trade" would be against home rule for Ireland but in favor of "home rule" for Jews in Palestine because Jews like Rothschild felt that any amelioration of the condition of the Irish was a threat to property rights. Any threat to the hegemony of the Royal Navy over the seas posed a threat to the investments which the Rothschilds had brokered in foreign countries like Egypt, India and elsewhere. That meant that the clique of philosemites who gathered at Tring and accepted Natty Rothschild's hospitality and his loans, people like Balfour and Randolph Churchill, and now his son Winston, were also equally committed to war with Germany. The war with Germany was a war for trade, as Balfour made clear when he said: "We are probably fools not to find a reason for declaring war on Germany before she builds too many ships and takes away our trade." When someone countered Balfour's assertion by saying, "If you wish to compete with German trade, work harder," Balfour could only counter fatalistically, "That would mean lowering our standard of living. Perhaps it would be simpler for us to have a war. . . . Is it a question of right or wrong? Maybe it is just a question of keeping our supremacy."⁵²

After Churchill became First Lord of the Admiralty in 1911, Lord Grey let him in on his secret plan to attack Germany,⁵³ and together they began to plot Britain's entry into war. During 1912 Grey worked out a series of secret naval agreements with France without the knowledge of either house of Parliament, pledging intervention on France's behalf were Germany to invade Belgium. By the spring of 1914 the Anglo-American elites were privy to the plans. On May 29, 1914, Edward House, one of the main architects of the Great Rapprochement, and Woodrow Wilson's chief advisor, claimed: "Whenever England consents, France and Russia will close in on Germany and Austria."⁵⁴

Europe was criss-crossed with a series of diplomatic tripwires which insured war whenever a significantly grave incident occurred. The "inciting incident" occurred on June 28, 1914, when Gavrilo Princip, an agent connected to the Russian Okhrana, assassinated Austria's Archduke Ferdinand in Sarajevo. War between Austria and Serbia meant war between Austria and Russia, and that meant that Germany would enter the war against both Russia and France on the side of Austria, and that meant that Britain would enter the war on the side of France, and that meant that Britain had successfully manipulated the two powers which controlled the "pivot" of the Eurasian landmass into attacking each other, an outcome consistent with the past 400 years of British foreign policy, as Churchill himself had stated.

Instead of accepting a diplomatic solution, Austria bombarded Belgrade on August 28, inaugurating the war. Six days later Germany declared war on France, falling into the trap that England had prepared for it by appearing to be the ag-

gressor. Only when it was too late did the Kaiser realize that he had been lured into a trap: "So the celebrated encirclement of Germany has finally become an accomplished fact. . . . A magnificent achievement which even those for whom it means disaster are bound to admire."⁵⁵ According to Abel Ferry, the French Under-Secretary of State, "The web was spun and Germany entered it like a great buzzing fly."⁵⁶ Two days before Austria attacked Serbia, "the British Treasury began printing special Notes, non-convertible into gold, marked for war expenses,"⁵⁷ and the *Manchester Guardian* spoke of "an organized conspiracy to drag us into war."⁵⁸ Churchill himself admitted years later that, "The cabinet was absolutely against war and would never have agreed to being committed to war at this moment." Winston, however, was "very bellicose and demanding immediate mobilization."⁵⁹ Churchill was fully aware of the mayhem he was unleashing on the world, mayhem that would destroy the very empire he was hoping to save, but he was exultant nonetheless, telling his wife: "Everything tends toward catastrophe and collapse. I am interested, geared up and happy. Is it not horrible to be built like that?"⁶⁰ When the British ultimatum expired at 11 PM on August 4, 1914, Churchill "dashed into the room, radiant, his face bright" unable to contain his exhilaration: "I think a curse should rest on me—because I am so happy. I know this war is smashing and shattering the lives of thousands every moment and yet—I cannot help it—I enjoy every second."⁶¹

The German war plan functioned just as von Schlieffen had said it would during the first two weeks of the war. The German Blitzkrieg marched through Belgium like a hot knife through butter and inflicted 300,000 casualties on the French before it bogged down just 30 miles from Paris. At this point the Schlieffen plan went awry, and since there was no Plan B, the two armies settled into trench warfare. The machine gun had reached a state of perfection which, in the absence of the tank, rendered both sides immobile.

This stand-off lasted until America entered the war on April 6, 1917.⁶² In 1914 90 percent of the American people had been against entering the war.⁶³ This would change when the Anglo-American elites launched a propaganda campaign, unprecedented in American history, which demonized Germans and ethnic loyalty in general by staging events like the Melting Pot Pageant, under the direction of Frank Creel at the Committee for Public Information, America's first propaganda ministry. President Wilson joined wholeheartedly in the propaganda campaign, spreading Germanophobia as a cover for Anglo-American capitalism during the tour he made of the country during the summer of 1919 when he campaigned for ratification of Treaty of Versailles. "This war, in its inception" Wilson said in St. Louis, "was a commercial and industrial war . . . The German bankers and German merchants and the German manufacturers did not want this war. They were making conquest of the world without it, and they knew it would spoil their plans."⁶⁴

The war had exactly the outcome that the Kaiser feared. America's entry into

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the war had broken the impasse on the battlefield and once that happened, the looting began, prompting Asquith to say: "We look more like a gang of Elizabethan buccaneers than a meek collection of black-coated Liberal ministers."⁶⁵ The Royal Navy seized all of Germany's colonies and then, under Winston Churchill's direction, "imposed upon Germany a starvation blockade that violated all previous norms of civilized warfare."⁶⁶ Some have argued that the famine in Ireland was a form of genocide; however, no one could argue that Churchill's naval blockade of Germany was not a form of genocide. Lured into an armistice by Wilson's 14 points, Germany found itself at the mercy of the same people who had stood by and watched a million Irishmen starve to death. Herbert Hoover opposed the blockade, as did Pope Benedict XV, but Churchill was unmoved. Under normal circumstances Germany needed to import one-quarter of the food it consumed. Those normal circumstances had been exacerbated by the war and the blockade. When the Kaiser requested permission to buy 2.5 million tons of food, Churchill denied the request because his aim, in his own words was to "starve the whole population—men, women and children, old and young, wounded and sound—into submission."⁶⁷ On March 3, 1919, "four months after Germany had accepted an armistice and laid down her arms," Churchill told the House of Commons that, "We are enforcing the blockade with rigour, and Germany is very near starvation."⁶⁸ It was another four months before the starvation blockade was lifted on July 12, 1919. In December 1918 the German Board of Public Health claimed that 763,000 Germans had died because of the blockade. In April 1919 Dr. Max Rubner claimed that another 100,000 German civilians had died following the armistice but that figure did not include the Germans who died between April and the signing of the Treaty of Versailles in July,⁶⁹ so the number of Germans who died from Winston Churchill's starvation blockade most probably approximates the number of Irish who died during the Great Famine.

Eight months after America entered the war in April 1917, General Sir Edmund Allenby and his officers entered the Holy City of Jerusalem at the Jaffa Gate on foot on December 11, 1917.⁷⁰ Britain's triumph over Germany was the classic illustration of a pyrrhic victory. Britain had not only bankrupted herself, emerging from the war with a debt that was "14 times what it had been in 1914,"⁷¹ it had also lost its empire to its American creditors. In order to continue, that empire would have to become the Anglo-American empire. That empire was based on gold or, more specifically, the gold standard, which had caused panics with monotonous regularity throughout the 19th century. It was in defense of this same gold standard that Natty Rothschild proposed both a big Royal Navy and Palestine as its forward base in the Middle East. Considering the role which both the gold standard and the state of Israel would come to play in the subsequent history of the Anglo-American empire, it is not far-fetched to see Alberich's curse settling on America during the fateful year 1917, when the baton of empire passed from England to the United States.

Endnotes

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- 2 David Cannandine, *Aspects of Aristocracy: Grandeur and Decline in Modern Britain*, (New Haven and London: Yale University Press, 1994), pp. 143-4.
- 3 Cannandine, p. 144.
- 4 Foster, p. 383.
- 5 Cannandine, p. 144.
- 6 Ibid.
- 7 Ibid.
- 8 Ibid.
- 9 Cannandine, p. 145.
- 10 Cannandine, p. 146.
- 11 Ibid.
- 12 Ibid.
- 13 Ibid.
- 14 David Irving, *Churchill's War: II Triumph in Adversity* (London: Focal Point, 2001), pp. 144-5. See also Vol. I, p. 104. Strakosch had made similar "loans" to two other cabinet ministers as became apparent when his will—formally expunging the debts—was published, as was mandatory, in *The Times* on February 6, 1944.
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- 19 "The Great Rapprochement," *Authentic History Center*, Last modified July 12, 2012, <http://www.authentichistory.com/1898-1913/4-imperialism/4-rapprochement/index.html>
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- 64 Buchanan, p. 48.
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- 66 Buchanan, p. 67.
- 67 Buchanan, p. 79.
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70 Preparata, p. 40.

71 Buchanan, p. 101.

Chapter Eighty-Eight

Bismarck Implements von Ketteler

Reform arrived eventually, but not in the form that either Ratzinger or *Civiltà Cattolica* proposed. Both the Catholic Church and the German state dealt with the *Arbeiterfrage* in their respective ways, but neither the Church nor Germany dealt with the usury issue or Jewish involvement in usury. Bishop Von Ketteler's understanding of property as something that was part of nature and therefore not capable of being dismissed as theft—as Marx and Proudhon had done, on the one hand—or absolutized, without taking into account its role in providing for the common good—as the English Liberals had done, on the other hand—eventually found its way into the German constitution.¹

Ketteler's ideas found more immediate and more concrete implementation in the social reforms passed under Bismarck, who opened the debate on social reform on November 17, 1881 by using the term "practical Christianity" to describe his program. The term itself was a significant move away from the Enlightenment hostility toward religion which characterized his *Kulturkampf* with the Catholic Church in the immediate aftermath of unification in 1871. Within two years of Bismarck's articulation of social reform under the rubric of "practical Christianity," the Reichstag had passed his health insurance bill in 1883.

During the 1880s, Leo XIII, with the help of Ludwig Windhorst and the Center Party, undid much of Bismarck's anti-Catholic legislation. Bismarck's rapprochement with the Catholics, undertaken after he perceived that the socialists were a much more serious threat, led to the adoption of many of the suggestions for ameliorating the lot of the worker which Bishop von Ketteler had made in his 1864 book *Die Arbeiterfrage und das Christentum*. On 20 March 1884, Bismarck opened the debate on his proposed accident insurance legislation with words that could have been taken from the pages of Ketteler's book when he declared:

The real grievance of the worker is the insecurity of his existence; he is not sure that he will always have work, he is not sure that he will always be healthy, and he foresees that he will one day be old and unfit to work. If he falls into poverty, even if only through a prolonged illness, he is then completely helpless, left to his own devices, and society does not currently recognize any real obligation towards him beyond the usual help for the poor, even if he has been working all the time ever so faithfully and diligently. The usual help for the poor, however, leaves a lot to be desired, especially in large cities, where it is very much worse than in the country.²

Less than six months after the series on the Jewish Question appeared in

Civiltà Cattolica, and roughly a year after Bismark resigned as Chancellor from the Germany he had created 20 years earlier, Leo XIII issued *Rerum Novarum*, his encyclical on the condition of the working classes, in May 1891. The *Civiltà Cattolica* series reduced the Jewish Question to concern about usury, but Pope Leo XIII, although he condemned "rapacious usury, which, although more than once condemned by the Church, is nevertheless, under a different guise, but with like injustice, still practiced by covetous and grasping men," took a different tack in dealing with the worker issue. He took an approach very similar to the one which Bishop von Ketteler, the man he described as his "grande predecesseur,"³ took in *Die Arbeiterfrage und das Christentum*, almost 30 years earlier. Although Ketteler's book appeared roughly 20 years after Marx wrote "*Zur Judenfrage*," he did not attach the significance to Jewish influence in the economy which it would attain after the Crash of 1873.

Georg Ratzinger concluded his book with a demand for reinstatement of the Christian state and the Christian social order. He contextualized that demand with the claim that the Jewish question was the biggest social question of our age. The only reason that the social question or the worker question came into being was because the economy as well as every other aspect of public life had become dominated by the spirit of Jewish usury and heathen exploitation. The social question was, as a result, a function of the Jewish question, and not vice versa.

Since Ketteler's book, not Ratzinger's, created the intellectual categories which informed *Rerum Novarum*, the Jewish question was conspicuous by its absence from Leo's encyclical. So were the remedies which *Civiltà* proposed for usury, remedies which were inextricably linked to its mainly Jewish practitioners. This omission would have far-reaching consequences.

The Catechism of the Council of Trent had condemned usury as a violation of the seventh commandment prohibiting robbery. Like robbers, usurers were:

the most cruel and relentless of extortioners, who by their exorbitant rates of interest, plunder and destroy the poor. Whatever is received above the capital and principal, be it money, or anything else that may be purchased or estimated by money, is usury; for it is written in Ezechiel: He hath not lent upon usury, nor taken an increase; and in Luke our Lord says: Lend, hoping for nothing thereby. Even among the pagans usury was always considered a most grievous and odious crime. Hence the question, "What is usury?" was answered: "What is murder?" And, indeed, he who lends at usury sells the same thing twice, or sells that which has no real existence.⁴

By the time the Catholic Church issued what amounted to the Catechism of the Second Vatican Council in 1994, the term "usury" had disappeared from Catholic moral discourse, not even meriting an entry in the index. The same was *a fortiori* true of the "Jewish Question" which had so animated the pages of *Civiltà Cattolica* one hundred years earlier.

In a return to the concerns of the era in which Ketteler wrote, which is to

say in the aftermath of the Revolution of 1848, after the appearance of the Communist Manifesto but before the appearance of *Das Kapital*, Leo XIII condemned socialism, in much the same terms that Ketteler used in *Die Arbeiterfrage*. If the teachings of socialism were implemented, "the working man himself would be the first to suffer," because, deprived of property and family, he "would have been surrendered, isolated and helpless to the hardheartedness of employers and the greed of unchecked competition." Socialism is "emphatically unjust" because it would "rob the lawful possessor, distort the functions of the State, and create utter confusion in the community." By abolishing property or (what is the same) transferring the possessions of individuals to the community at large, socialists "strike at the interests of every wage-earner, since they would deprive him of the liberty of disposing of his wages, and thereby of all hope and possibility of increasing his resources and of bettering his condition in life." The socialists fail to see that

every man has by nature the right to possess property as his own . . . not merely for temporary and momentary use, as other living things do, but to have and to hold them in stable and permanent possession; he must have not only things that perish in the use, but those also which, though they have been reduced into use, continue for further use in after time. . . . the main tenet of socialism, community of goods, must be utterly rejected, since it only injures those whom it would seem meant to benefit, is directly contrary to the natural rights of mankind, and would introduce confusion and disorder into the commonweal. The first and most fundamental principle, therefore, if one would undertake to alleviate the condition of the masses, must be the inviolability of private property.

Leo then attacks even more vehemently the socialist attempt to abolish the family:

Paternal authority can be neither abolished nor absorbed by the State; for it has the same source as human life itself. "The child belongs to the father," and is, as it were, the continuation of the father's personality; and speaking strictly, the child takes its place in civil society, not of its own right, but in its quality as member of the family in which it is born. And for the very reason that "the child belongs to the father" it is, as St. Thomas Aquinas says, "before it attains the use of free will, under the power and the charge of its parents." The socialists, therefore, in setting aside the parent and setting up a State supervision, act against natural justice, and destroy the structure of the home.

Leo then attacks the "iron law of wages," which is based on the notion that

Wages . . . are regulated by free consent, and therefore the employer, when he pays what was agreed upon, has done his part and seemingly is not called upon to do anything beyond. The only way, it is said, in which injustice might occur would be if the master refused to pay the whole of the wages, or if the workman should not complete the work undertaken; in such cases the public authority should intervene, to see that each obtains his due, but not under any other circumstances.

In place of the "iron law of wages," Leo proposes the just wage, which is predi-

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cated on the fact that:

The preservation of life is the bounden duty of one and all, and to be wanting therein is a crime. It necessarily follows that each one has a natural right to procure what is required in order to live, and the poor can procure that in no other way than by what they can earn through their work.

The worker is free to make agreements concerning his labor, but those agreements cannot be determined by market forces alone because

there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner. If through necessity or fear of a worse evil the workman accept harder conditions because an employer or contractor will afford him no better, he is made the victim of force and injustice.⁵

The labor issue will be solved "if a workman's wages be sufficient to enable him comfortably to support himself, his wife, and his children." The working man has a right to join unions to ensure that his wages never fall below this level:

We may lay it down as a general and lasting law that working men's associations should be so organized and governed as to furnish the best and most suitable means for attaining what is aimed at, that is to say, for helping each individual member to better his condition to the utmost in body, soul, and property. It is clear that they must pay special and chief attention to the duties of religion and morality, and that social betterment should have this chiefly in view; otherwise they would lose wholly their special character, and end by becoming little better than those societies which take no account whatever of religion.⁶

The great labor question can be solved if the worker is allowed to accumulate property from which he can "secure a modest source of income." The "great labor question," however, "cannot be solved save by assuming as a principle that private ownership must be held sacred and inviolable. The law, therefore, should favor ownership, and its policy should be to induce as many as possible of the people to become owners."⁷

In 1889, Bismarck introduced legislation providing an old age pension for workers over 70 years of age. One year later, Bismarck, having fallen afoul of Kaiser Wilhelm II's suspicions that he was conniving with the Catholics behind his back, was out of a job. In 1890 Bismarck's career came to an end, but not before he had "given the German working class the most advanced social legislation in the world."⁸ Bismarck's legislation may not have destroyed the socialists, as he had hoped it would, but the measures he enacted "were twenty years ahead of Britain in the area of Social Welfare" and "helped to improve the life of most ordinary Germans."⁹ They also laid Marx's enmiseration theory to rest once and for all. Bismarck's social legislation also put an end to the attrition of its work force that had been bleeding Germany dry ever since the defeat of Napoleon. Strengthened by the concentration of that German work force at home, Germany surpassed England and became a paradigm for the rest of the world. It was a challenge that Eng-

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land could not let go unanswered. By the end of the first decade of the 20th century, Germany had surpassed England and was now the premier economy in Europe. When that realization dawned on Lord Grey and the English elites, the outbreak of the war which would settle whose economic system was going to rule the world was only a matter of time. Lord Grey and his famulus Winston Churchill then spent the first decade of the 20th century weaving a web of diplomatic intrigue which would trap the unwary Kaiser in a war that was not of his own making.

At the same time that the German Reichstag was passing landmark social legislation, Ruskin lamented: "Although England is deafened by the noise of its spinning wheels, its people have no clothing to wear; and although it is blacked by the coal it mines from the earth, its people die of the cold; and although it has sold its soul for profit, its people are starving." Ruskin's statement prompted Pesch to remark upon the "remarkable irony" involved in the fact that "It was from the country where Smith's industrial system operated freely and completely that socialism was first able to derive its exploitation and immiserization theories, its theory about a natural progression deterioration of the condition of the workers."¹⁰

Bishop von Ketteler's ameliorism had triumphed over Karl Marx's enmiseration theory, but the battle over whether the English or the Germans were going to provide the model for global economic development was far from over. In fact, it was now entering into its final and fatal phase, as Kaiser Wilhelm II, now freed from Bismarck's influence, embarked upon a suicidal arms race with the British navy.

Endnotes

- 1 "Bishop and advocate of the petty people," <http://www.kab-kuelsheimsteinbach.com/66001.html> Die Missstände in der Sozialpolitik sah er vor allem in der Abkehr von christlichen Tugenden wie der Nächstenliebe und einem falschverstandenen Begriff des Privateigentums, das er nicht ablehnte wie einige Monate zuvor Marxs und Engels, sondern dass er als Verpflichtung ansah, dass sein Gebrauch dem Wohle der Allgemeinheit dienen soll. Hundert Jahre später sollte diese Verpflichtung in das Grundgesetz der Bundesrepublik Deutschland übernommen werden.
- 2 "Otto von Bismarck," *Wikipedia*, http://en.wikipedia.org/wiki/Otto_von_Bismarck.
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- 5 Leo XIII, *Rerum Novarum*, Encyclical letter on Capital and Labor, May 15, 1891. http://www.vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html. para. 45.
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- 8 Stephen Tonge, "Bismarck's Domestic Policies 1871 -1890," *European History*, Last Modified November 11, 2013, <http://www.historyhome.co.uk/europe/bisdom.htm>
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Chapter Eighty-Nine

The Founding of the Federal Reserve

In 1913, 40 years of contentious debate over the monetary system of the United States of America resulted in an uneasy truce when Congress passed the Federal Reserve Act and created the nation's third central bank. The truce came about largely because of deception. The Federal Reserve Act was marketed as a reform bill which would rein in the power of the "money trust," leading William Jennings Bryan to hail the passage of the Federal Reserve Act of 1913 as a "triumph for the people."¹ Similarly, when the Federal Reserve Act was signed into law, it was portrayed as "a great victory for Democratic reform over Republican special interests, a triumph for the popular will and a defeat for Wall Street."² It was unfortunately, neither a triumph for the popular will nor a defeat for Wall Street. It was, in fact, a triumph for Wall Street that was a defeat for the popular will. In an age when it was hoped that government would rein in the rapacity of the private "money trust," the Fed proved to be the best of both worlds for the usurers. They now had a central bank that defended their interests, with the government that was supposed to ensure the common good committed to furthering the cause of the creditor class. Now whenever anything went wrong, the apologists for laissez-faire could blame the government, as Milton Friedman would go on to do in his analysis of the stock market crash of 1929. When the people, however, went to their elected representatives to complain about the Fed's monetary policies, they were told that the Fed was above and outside the political process. The creditor class had once again created a game in which every flip of the coin had the same result: heads I win; tails you lose.

President Wilson may have persuaded Bryan to endorse the Federal Reserve Act as a triumph over the money trust, but the Populists were not so easily fooled. Not surprisingly, the Texans were first to see through the charade. Congressman Robert Henry of Texas claimed that the Federal Reserve Act had created a system "wholly in the interest of the creditor classes, the banking fraternity, and the commercial world without proper provision for the debtor classes and those who toil, produce and sustain the country."³ The truth of Henry's claim received unexpected substantiation from the other end of the economic spectrum when Wall Street banker Paul Warburg, one of the co-conspirators at the 1910 meeting on Jekyll Island,⁴ put aside his complaints "and agreed to help run the new system."⁵

The founding of the Federal Reserve was an institution which marked the end of one era and the beginning of another. It was simultaneously "an important prototype for the modern liberal state" as well as "the beginning of the end of laissez-faire."⁶ The fact that the new central bank was called the Federal Reserve System rather than the Third Bank of the United States, which is what it was, was a sign of the contentious nature of the debate. It was also a sign of the mendacity of those who were proposing it. Because the Fed was a government institution, it was assumed that it "would finally harness the 'money trust,' disarm its powers, and establish broad democratic control over money and credit." In fact, the opposite took place: "The money reforms enacted in 1913, in fact, helped to preserve the status quo, to stabilize the old order. Money-center bankers would not only gain dominance over the new central bank, but would also enjoy new insulation against instability and their own decline."⁷ In the end, "the Fed may have actually preserved the financial power of those very bankers who the public thought were being brought under control."⁸

The Fed was created to prevent banking panics, "to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States and for other purposes."⁹ Over the course of the next century one of those "other purposes"—at least as mandated by Congress—came to be construed as the promotion of full employment. That the governors of the Fed would use its power to increase unemployment as the main weapon against inflation was one of the many ironies involved in its historical development. It also pointed out the fundamental conflict between capitalism and democracy in the American political system. Democratic capitalism, far from being a political truism whose association was automatic, was in fact an oxymoron. Democracy favored the debtor; capitalism favored the creditor, and there was no easy way to work out the contradiction. Any monetary system would normally end up benefiting one group at the expense of the other, unless the system was calibrated to balance the competing interests of those two groups, which was not the case in America. When the Republican Party abandoned its early abolitionist radicalism and sided with the nation's financial interests, the political die was cast. The Fourth Coinage Act of 1873 was the outward sign that the government had sided with the interests of the creditor.

But the Republicans had learned their lesson in the newly created school of public relations. The creation of the Fed was a much more ambiguous political gesture than what came to be known as "the Crime of '73." It used the rhetoric of populism to advance the cause of capitalism. It was, in fact, a masterpiece of public relations. The Federal Reserve Act "represented the culminating political triumph of the 'sound money' crusade

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of the 1890s,"¹⁰ but it did so in ways that allowed Democrats like Bryan to celebrate it as a victory of the common man over the money trust.

In August 1914, two things happened that would bring to a close the Populist Era and its notion that money should be in the service of the people and not vice versa. Germany declared war, and the Federal Reserve became operational when Benjamin Strong was appointed its first governor. Strong was "a Morgan man,"¹¹ which ensured continuity between the source of the problem and the system which purported to solve it. His appointment guaranteed that democratic rhetoric would continue to be used to disguise the plutocratic policies of the new American central bank.

War, as everyone had come to expect, meant a suspension of the gold standard. As anyone familiar with the history of 19th century war and finance could have predicted, each of the European powers suspended the gold guarantees behind their own currencies and printed fiat money to finance their armies. No one could have predicted that this supposedly temporary suspension of redeemability was the beginning of the end of the gold standard. With the exception of a brief six-year coda, the gold standard would disappear from history along with the empires of the *belle époque* as one of the major casualties of the Great War.

The Great War in conjunction with the founding of the Fed would also bring about the collapse of laissez faire economics as that term was defined during the 19th century. The gold standard would expire within two years of the stock market crash of 1929, and both it and the laissez faire principles that enabled it would enjoy a brief coda of wretched excess before expiring. The Fed was committed to both, but it could prevent the demise of neither of its policies, which were technically innovative and, at the same time, tethered to an obsolete economic and philosophical framework that would insure its own demise. In fact this combination of technocratic innovation in the service of obsolete economic ideas would characterize the Fed for the rest of its history. Greider sees the creation of the Fed as

the keystone in a profound alteration that occurred in the America culture and self-government—a new sensibility that devalued the potential of representative government and imposed limitations on it. . . . Popular will . . . must be restrained in the new age of multiplying complexity and scale. Decisions on great public issues which were once left to politics should be consigned to disinterested experts, bureaucratic technicians who had specialized training.¹²

The rise of the Fed corresponded to the rise of social engineering in American life. Influenced by Jewish thinkers like Walter Lippmann, who learned his trade as a propagandist under Frank Creel's Committee for Public Information, American elites turned their back on democracy, epitomized by the corruption of big city political machines, and converted to a new "faith in the technocratic approach to government."¹³ The new faith

was profoundly antidemocratic and anti-entrepreneurial, but it became the unacknowledged spirit of the Fed, which embodied the technocratic approach congenial to Imperial America after, and because of, America's involvement in World War I. The ordinary citizen, although still theoretically sovereign, was deemed incompetent to govern in matters as arcane as finance and the nation's money supply,¹⁴ hence the need for the Fed.

When Benjamin Strong, the first head of the Federal Reserve System, first met Montague Norman, who would become his counterpart as head of the Bank of England, the War had been raging in Europe for two years. Norman had been born in 1871, a year before Strong, but he came to his post as governor of the Bank of England six years after Strong had taken over the Fed. In 1916 he had been working at the War Office near Haymarket in London advising the wartime government on "baffling financial matters" and expediting huge piles of unanswered financial correspondence.¹⁵ After spending 20 years with the Anglo-American firm of Brown & Shipley, Norman had become an expert at pound-dollar exchange, which made him invaluable to the Foreign Office's efforts to fund the war. This expertise, more than anything else, earned him on May 4, 1916 an appointment to the Treasury Committee of the Bank of England. Within four years, Norman would be appointed Governor of the Bank of England in 1920, a post he would hold for an unprecedented 24 years.

Perhaps it was Strong's Puritan heritage that drew him to the Englishman who worked for the City of London's premier institution, but both men became close friends, and the friendship perdured because of what they held in common: "Norman had come to love the United States long before he went to the Bank of England. Strong greatly admired the British. Both were internationalist in outlook."¹⁶ Both men were members of the Anglo-American banking elite; both men were prone to fits of debilitation. Strong suffered from a number of maladies and eventually died of tuberculosis in his fifties in 1928. Norman suffered from bouts of depression and sought relief from the illustrious Dr. C. G. Jung of Zurich, the protégé of Sigmund Freud, who misdiagnosed him as suffering from tertiary syphilis.

Both men sought relief from their respective maladies by taking long ocean voyages, during which the financial world slipped into unexpected predicaments because of their absence. But, most importantly of all, both men were fervent believers in the gold standard and dedicated their lives to its restoration after World War I. Both men were believers in the orgasmic future that receded before them as they were born back ceaselessly into the past on a current of pernicious and obsolete economic ideas. Both men could have said with Gatsby, "I'm going to fix things just the way they were before." Both men believed that they could restore the past and resurrect the lost world of the *belle époque* by resurrecting its defunct economic

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system. If either man had been asked whether you “Can’t repeat the past?” both would have replied with Gatsby, “Of course you can” because:

Both were convinced that there was no satisfactory substitute for an international gold standard. Gold standards were necessary, they believed, to secure a network of stable exchange rates, without which orderly flows of trade and capital could not be restored. A restoration of international gold payments was also necessary as a “discipline” for domestic monetary policies—to supply a safeguard against inflation the state wanted . . . to facilitate government financing regardless of inflationary consequences.¹⁷

In order to bring about the lost world of the gold standard, Benjamin Strong first needed to throw the American economy into a recession, just as his Republican forebears had done in 1873 after they passed the Fourth Coinage Act. He accomplished this, not by demonetizing silver, but by raising the Discount rate from 4 to 7 percent. The first recession directly induced by the newly created Federal Reserve began in the spring of 1920. As a result of the interest rate hike, the price of money nearly doubled, and the Fed held it at this economically crushing high level for 18 months. The result was an economic contraction so severe that it qualified as a depression. In its debut as an actor in its own right and not merely an adjunct of the Treasury Department’s war effort, the Fed under Strong’s direction showed that it was clearly on the side of the creditor in preserving a “hardened,” i.e., deflated, dollar of the sort that had made life miserable for farmers and laborers during the last quarter of the 19th century. The Fed’s objective “was the restoration of ‘sound financial conditions,’ not the restoration of economic growth.”¹⁸ “Sound financial conditions” necessitated a recession, and recession was another word for “the liquidation of labor,” which is to say, driving down wages by throwing people out of work by depriving those who employed them of the credit they needed to do business. The priorities which Strong established by creating the recession of 1920 would stay with the Fed for the rest of its existence: the Fed under Strong invariably favored usury at the expense of labor: “Though chartered to accommodate ‘the needs of commerce and industry,’ the central bank focused its concern on the health of the financial sector over the productive economy. In order to restore one, it was necessary to punish the other.”¹⁹

By May of 1920, inflation had been broken, and depression had taken its place. Strong embarked upon this policy fully conscious of the deleterious consequences that his actions would have for both industry and labor. On February 5, 1919, Strong wrote to Fed board member Adolph Miller, explaining why labor had to suffer so that gold could prosper:

The consequence of sharp increases in our bank rates at the present time would be serious for the country and probably, for the world. On the other hand, the sooner we liquidate Reserve Bank Loans and deposits to some extent, the sooner

Barren Metal

will it be possible to start a free movement of gold throughout the world, but then can we afford to run the risk of a free gold movement so long as the terms of the various economic settlements to be dealt with by the peace conference are not known and agreements reached between the Allied nations on these various matters?"²⁰

On February 6, 1919, Strong wrote an 11-page letter to Assistant Secretary Russell Leffingwell that was even more explicit in acknowledging the pain which his deflationary policy would inflict on the economy: "the day of deflation approaches. The process of deflation is a painful one, involving loss, unemployment, bankruptcy and social and political disorders, whereas the process of inflation brings in its train prosperity, employment, rising prices, a happy absence of bankruptcies and general state of contentment." Even after admitting this, Strong concluded "We must deflate" because:

If this is not done, we must face the necessity of either continuing the gold embargo, to the detriment of the world's financial position, or else lose a large amount of gold at a time when it would be inconvenient for us to do so, and necessarily force a more radical readjustment in interest levels than we have yet found necessary to employ.²¹

Treasury Secretary Carter Glass, later co-sponsor of the Glass-Steagall Act, felt that the Fed should curb "illegitimate lending," i.e., lending for stock market speculation rather than investment. "The Governors of the Bank," Glass opined:

should exercise a firm discrimination in making loans to prevent abuse of the facilities of the Federal Reserve System in support of the reckless speculation in stocks, land, cotton, clothing, foodstuffs and commodities generally. . . . Making credit will not suffice. . . . The Reserve Bank Governor must raise his mind above the language of the textbooks and face the situation which exists The New York Stock Exchange is the greatest single organized user of credit for speculative purposes. . . .²²

Strong, however, convinced that he had no instruments that could adequately determine how credit would be used once it left the Fed, stuck to a deflationary course that left speculators off the hook while punishing the weak, while hectoring Washington for its political interference in the economy.

Convinced that the Fed's deflationary course was correct, Strong embarked on a year-long cruise around the world that allowed him to miss the last five months of inflation and the first seven months of deflation.²³

One month after his departure, on January 14, 1920, the governors of the New York Fed voted to raise the discount rate from 4 $\frac{3}{4}$ to 5 $\frac{1}{2}$ percent. Four months later, "inflation ended in a sharp and almost worldwide break in the prices of such basic commodities as silk, sugar, rubber, coffee, and latter cotton, corn, wheat, rice, and tobacco. The whole economy soon

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plunged into depression.²⁴ Toward the end of his round-the-world cruise, Strong dropped in on his colleague Norman in London in December 1920. Impressed with the results of New York Fed's rate hike, Strong felt that "some relaxation of credit restraint might be in order,"²⁵ but Norman urged him to stay the deflationary course.²⁶

By the time he returned to New York, Strong was convinced that Norman had given him the right advice. Strong felt that things were looking up in America, primarily because wages, the chief engine of inflation according to Strong, "are being reduced moderately."²⁷ Whether the working man in America felt that the reduction of his wages was moderate is another question. Politicians more responsive to the will of the people, tended to disagree. John Skelton Williams claimed that the Fed "had deliberately conspired at their meeting on May 18, 1920 to plunge the country into deflation." The charge was, of course, true, as a perusal of the April 20, 1920 minutes of the meeting of the Fed's governors could have shown, but Strong was furious nonetheless.²⁸ As in the period following the Civil War, gold had taken precedence over human labor and human suffering. This:

must seem incredible to anyone who accepts the theory that the primary function of a central bank is to use its powers continuously and positively to promote maximum employment, the highest sustainable rate of economic growth and stable price levels. But in 1920-21 the Fed had not yet developed this concept of its functions.²⁹

Missing from this exculpation is the fact that the Fed, even though it was an arm of the government, and even though its governor was a political appointee, never felt that it had to serve the needs of the people of the United States. The Fed was created by the creditor class to serve the needs of the creditor class, and whenever those needs came in conflict with the overwhelming majority of citizens who were either debtors or in possession of no asset other than their labor, the Fed came down on the side of the creditor, no matter how much pain it had to inflict on everyone else. The Fed was created as a shell game. It was a public or a private entity, depending on which was more convenient at the time.

Strong's decision to precipitate the American economy into the recession of 1920-21 established a precedent which would last until the present day. Paul Volcker, Strong's successor, did the same thing when he threw the country into the recession of 1980-81. The Fed represented the interest of the creditor class. When representatives from 13 distressed farm states begged Volcker to lower interest rates, his reply left no doubt whose interests he represented: "Look," Volcker said, "your constituents [i.e., the farmers] are unhappy, mine [i.e., the bondholders] aren't."³⁰ Volcker's reply encapsulated the entire history of the Fed, but the precedent he followed had been set by Benjamin Strong when he unleashed the Depression of 1920-21 on the

economy in the interest of "sound money." According to the priorities the usury class created when they established the Fed, its "dominant purpose":

should be to assure "sound" financial conditions, which meant first of all maintaining gold payments and avoiding financial crises. A central banker accepting this set of priorities naturally feared inflation more than deflation and insisted that on some occasions deflation was necessary for the attainment of primary financial objectives.³¹

One of Strong's other financial objectives was the defeat of any competing monetary system. Accomplishing this was no small matter because by any empirical standard, and by his own admission, the gold standard was a source of misery for the overwhelming majority of the American people. This included not just dead beats and losers who couldn't or wouldn't pay their bills, but some of the leading captains of industry and science. In a letter to Montagu Norman dated February 7, 1922, Strong claimed that:

The most dangerous menace now before the Federal Reserve System, and the country generally, is a combination or a coalition which seems to be in the course of preparation between Henry Ford, Thomas A. Edison, William J. Bryan. . . . In a deliberate campaign for cheap credit, Ford is going so far as to advocate printing paper money. Both Ford and Edison have been regarded as miracle workers. The former owns a newspaper in Dearborn, which has a considerable circulation, and which is starting to publish articles weekly suggesting unsound money expedients. . . . we are now quietly arming for the conflict. . . . It is the unfortunate outgrowth of deflation, so-called, whatever that may be.³²

Endnotes

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- 20 Chandler, p. 138.
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- 22 Chandler, p. 154.
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- 25 Chandler, p. 169.
- 26 Chandler, p. 170.
- 27 Chandler, p. 172.
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Chapter Ninety

The Golden Age Returns

In January 1923 France invaded the Ruhr, the industrial area which produced three-quarters of Germany's coal and steel, after Germany fell into arrears on its reparations payments.¹ After sealing off the area, French troops deported 150,000 civilians and non-essential workers to force the industrial workers who were left to collaborate in the confiscation of raw materials and manufactured goods, which were loaded onto railway carts to be shipped back to France and Belgium as payment for Germany's missed reparations payments.²

Deprived of the heart of its industrial strength, the German economy virtually shut down at the same time that it was burdened with the support of the six million residents of the Ruhr, who now had no way of earning a living. When it became apparent that the German government, deprived of their earnings from Ruhr area exports and the taxes that flowed from the richest region of the country, had nothing in its coffers to pay the salaries of the displaced Ruhr workers, investors lost confidence in the German government and began cashing in their bonds. Deprived of foreign exchange by the French invasion and of gold by the onerous reparations payments imposed by the Versailles treaty, Germany had no choice but to print money to meet its bond obligations. The result was the famous hyperinflation of 1923. By the fall of 1923 the storm of uncontrolled inflation grew into a hurricane.³

Inflation, even the prelude to hyperinflation, had its benefits, and the group which benefited most, as Americans familiar with the Populist movement could have predicted, were the German farmers. As the prices for their produce rose, they were able to pay off their debts with cheaper marks and eventually could keep the German luxury market going by buying up pianos and jewelry with the money their produce brought in. By the middle of 1923, the German farmers had emerged from debt and were prospering.

Their prosperity did not escape the notice of socialist finance minister Rudolf Hilferding, who, after observing their prosperity rise out of the ashes of the monetary system, conceived of a way out of the inflation crisis. His idea was the "rentenmark," a bank note which was covered "by a cautionary mortgage on the whole of German landed property, so that any given sum in rentemarks could be exchanged at any time for a like

sum in mortgage bonds.⁴ The description of the rentenmark was taken not from its inventor but from the man who implemented the plan, Hjalmar Horace Greeley Schacht, a financial wizard who emerged out of obscurity to become one of the financial titans of the interwar period and an equal to both Benjamin Strong and Montagu Norman. Schacht's father was an avid americanophile, who emigrated to New York, where he fell under the spell of Horace Greeley, but was unable to match his admiration with any significant economic achievements.

Schacht's father returned to Germany, married an impecunious aristocrat from Schleswig-Holstein and collaborated in producing one of the great German economic wizards of the 20th century. Because of his background and middle names, Schacht was known among Germans as "der Amerikaner," an appellation which extended to his economic theories as well. Schacht was both a freemason, and like Strong and Norman, a fervent believer in the gold standard as the epitome of the Newtonian, self-regulating capitalist system. Schacht's commitment to the freemasonry of the international gold standard, even more than his undeniable technical wizardry, allowed him to perform the economic miracles with which his name has evermore been associated.

On the morning of November 12, 1923, Hans Luther, the Weimar Republic's newly appointed finance commissioner summoned Schacht to his office for an urgent meeting during which he asked Schacht to assume the office of currency commissioner, whose main job would be bringing the hyperinflation under control.⁵ Until then Schacht had held a post as an official at the Danatbank. His lack of qualifications for the new job prompted the cynical explanation that Jacob Goldschmidt, the Jew in charge of the Danatbank, had pressed Luther and Stresemann to appoint Schacht so that Goldschmidt could gain valuable access to government circles for his bank while getting Schacht off the bank's payroll.⁶

Schacht took office one day later, on November 13, 1923, four days after the collapse of Hitler's beer hall putsch in Munich. Two days later, Schacht's rentenmark began rolling off the presses. Pegged at the old rate of 4.2 marks to the US dollar, they could be exchanged for the Reichsmark at a rate of one trillion to one.

Within two months of Schacht's appointment there was an improvement in the position of the German mark. For bookkeeping purposes, the noughts had been eliminated from the official exchange rate; bereft of its now superfluous zeroes the mark became easier to exchange in economic transactions. More importantly, foreign exchange speculators were soon curbed by Schacht's periodic and unannounced suspension of credit.⁷

By November 20, their positions ruined, the speculators capitulated; the inflation was over, and Schacht was hailed forever after as "the banker

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who saved his country.”⁸ An austerity plan which discharged 397,000 public sector employees at a annual saving of 421 million marks coupled with higher taxes won the admiration of the financial community both at home and abroad, and as a result, Schacht was appointed Reichsbank president on December 22, 1923.⁹

Going from an obscure bank employee to the pinnacle of German finance in a little over a month might have turned the head of a less-focused man, but Schacht, firmly grounded in the related worlds of freemasonry and international finance, knew what he had to do next: he had to put Germany on the hated English gold standard. He had to make a separate peace with the power that German economic thought had opposed for over a century, the power which had driven Germany into war to destroy what had become a superior economic system because it had eschewed usury in favor of labor. Schacht needed to establish a gold reserve “to give real backing to the mark,”¹⁰ and to do that he needed to meet with the spider whose web covered the world from its center in the City of London, Montagu Norman.

Schacht lost no time putting the second phase of his plan into action. Within days of his appointment as president of the Reichsbank, Schacht, accompanied by his assistant Steffek, was on a train bound for London. When he arrived at Liverpool Street Station at 8:00 PM on New Year’s Eve, Montagu Norman was on the platform to greet him in person. “I hope we shall be friends,” Norman said cordially, and the two men then agreed on an 11:00 AM meeting on New Year’s Day at the Bank of England.¹¹

The outcome of their New Year’s Day meeting was a foregone conclusion. If Schacht was willing to sell his soul and the soul of the German national economy to the gold standard devil, then Norman was willing to buy. What Schacht wanted was clear. He needed gold to restore the credibility of international financial markets in the now notorious Reichsmark. What Norman wanted was equally clear. He saw in Schacht “a useful instrument” who could serve as “the means to a greater end.”¹² That end was, of course, the world-wide return to the gold standard with the City of London as its undisputed headquarters and the once mighty German nation serving as a branch office of the Bank of England. Before Norman could return to the golden age, he would have to restore Germany’s ability to repay its debts:

The ultimate fulfillment of the alchemist’s dream—speeding European if not world recovery though the simple glittering rule of gold which had served so well in his father’s and grandfather’s days—depended on it. Restore Germany, and the Allies would have to compound a less odious and less harmful agreement on reparations. They might even settle among themselves their own unpaid war debts. The way would then be clear for Britain to lead them all back to the gold standard.¹³

During their meeting on the first day of 1924, Schacht told Norman

that he intended to found "a new credit bank based entirely on gold,"¹⁴ which would function independently of the Reichsbank. In order to do this he needed to borrow the equivalent of 100 million marks from the Bank of England. No equity was involved; the English needn't become shareholders in a German venture; all Schacht wanted was a loan for three years. When Norman hesitated for a third time, Schacht played his trump card. He intended to issue the bank's gold discount notes in pounds sterling, thereby turning his bank into a local branch of the Bank of England. Schacht's willingness to oppose the opening of a French bank in the Rheinland was an added incentive, enough to close the deal. Taken aback by his technical wizardry as well as his willingness to sell his own country's financial interests out to their traditional enemy, Norman speedily agreed to Schacht's terms. "That's good enough for me," Norman commented, "And now let's go to lunch."¹⁵

Before Schacht left London on 3 January 1924 he had secured the promise of a Bank of England loan for three years at the generous rate of 5 percent to found his gold discount bank. Norman was also happy to inform him that a group of London bankers, whom he had thoroughly sounded, were willing to accept German bills to the value of several hundred million marks, provided that they were endorsed by Schacht's new bank.¹⁶

Montagu Norman had just taken a giant step toward the fulfillment of his dream of re-establishing the gold standard. The next piece of the puzzle was the Dawes Plan. By August 1924 Norman had arranged a deal whereby a consortium of American Banks, led by J. P. Morgan Guaranty Trust Company under the supervision of the United States State Department, would lend Germany part of the huge reserves they had accumulated from being the Allies' arsenal during World War I. Fortified by this loan, Germany would restart her reparations payments to the tune of \$1 billion a year, which would increase to \$2.5 billion per annum after five years, and France would withdraw from the Ruhr.¹⁷ In July of 1924, the Reichsbank was able to make all of its reparations payments for the first time since the end of the war.¹⁸ Schacht and Norman were jubilant. Once the Dawes Plan got implemented, the resumption of the gold standard hove into clear view.

That Norman and Strong would conspire together to restore the gold standard is not surprising. The idea that the gold standard was the optimal monetary system for the entire world was part of the conventional wisdom of the day. Secretary of Treasury Andrew Mellon, who supported Strong's collaboration with Norman, gave voice to his wisdom when he claimed that:

the return to the gold standard by the rest of the world will mean greater stability of credit conditions within our own country and a lessening of the danger of inflation through abnormal gold imports. With the return of England and other

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major countries of the world to the gold basis the international movements of gold will again be adjusted to credit and rate conditions and the United States will no longer be called upon to absorb such a large proportion of the new supply as it has during the past few years.¹⁹

Certain requirements still needed to be fulfilled to bring about England's successful resumption of the gold standard. The main requirement was the proper ratio between the world's two main currencies: the dollar and the pound. In order to go onto the gold standard, England would have to peg the pound at \$4.86, its pre-War exchange rate with the dollar, and in order to do that price levels in the two countries would have to be brought into proper relationship with each other. As of the summer of 1924, that "would require a decrease in British prices, a rise in American prices or some combination of the two."²⁰ Interest rates would have to be lower in New York than London, but this was a matter of simple agreement between Strong and Norman.

As of early 1925, the currencies were still out of alignment. On February 5, 1925, the Committee on the Currency and Bank of England Note Issues recommended an early restoration of sterling to its prewar gold parity, but added this caveat:

The discrepancy between British and American gold prices . . . has not . . . disappeared, though it has been reduced. We must still be prepared to face a fall in the final price level here of a significant though not very large amount, unless it should happen that a corresponding rise takes place in America, if the rate of exchange is to be restored to and held at the prewar parity.²¹

The real issue was wages. There is a certain irony here. Both Strong and Norman were avid to put the world back on the gold standard. Yet ironically it was Strong's decision to deflate the economy by creating the Depression of 1920-21 that had made a speedy return to the gold standard impossible. Strong had been so successful in driving down wages that the dollar and the pound no longer aligned at the magic figure of \$4.86 to 1 pound: "Strong's deflation policy had put England at a disadvantage in getting on the gold standard because labor was still cheaper in the United States" because wages had been driven down in America below a level that was politically tolerable in England.

The irony only deepens when we learn that the British warned Strong about this very outcome. On December 23, 1919, Basil Blackett wrote to Strong warning him that: "if you deflate and your prices go down, we cannot face, socially or politically, the big drop in prices which would be necessary here."²² Even if Strong disregarded what Blackett said, he would not have ignored Norman, and beyond that he could not have been in the dark about Norman's views of the impending deflation because Strong saw Norman every year from 1919 when inflation was at its height until 1921, when

deflation had done its job. "From that time they were together almost every year, some times for long periods. They spent long vacations together, a few times at Bar Harbor but more often in Southern France,"²³ which leads to the conclusion that Norman knew about the impending deflation and approved of it.

Strong deflated in spite of Blackett's warning with disastrous and, ultimately fatal, consequences for the gold standard. At the time Blackett issued his warning, "British wholesale prices had risen about 180 percent above their 1913 levels while American wholesale prices had risen about 130 percent." A return to the gold standard at the old parity of \$4.86 to 1 pound would have required considerable effort even if the price ratio between the pound and the dollar had remained where it was in 1919.

Strong's deflationary policy, however, made a bad situation worse by widening the gap between American and British prices. American prices fell so sharply during the Fed-induced Depression of 1920-21 that "by 1924 British prices would have had to fall roughly 50 percent below their peak to re-establish their prewar relationship to American prices."²⁴

Fearing a political reaction from organized labor were he to raise interest rates in England, Norman asked Strong to re-inflate the American economy by lowering interest rates there. On October 16, 1924, Norman wrote to Strong telling him to inflate: "So for the moment you must continue with easy money and foreign loans and we must hold on tight until we know . . . what the policy of this country is to be."²⁵

Coming on the heels of a crushing depression caused by the Fed's deflation policy, the easy money policy of 1924, which Strong inaugurated at Norman's request, caused consternation among the politicians who had borne the heat for the deflation. Herbert Hoover, who later became one of Strong's sharpest critics, suspected correctly that Strong had become "a mental annex to Europe" and was making his decisions with the interests of international finance and not the interests of the American people in mind. Hoover "became especially bitter about the easy-money policies of 1924 . . . and of 1927, blaming them for the ensuing stock market boom and collapse."²⁶

The solution to the political impasse in England which prohibited Norman from raising rates there was to re-inflate the American economy to drive wages and prices up. Unfortunately, the farmers who got caught between deflated prices and glutted markets after the war "never really recovered from the depression of 1920-21 and the drastic decline in commodity prices."²⁷ The farmers and workers who had been driven to the wall by the Fed-induced Depression of 1920-21 were no longer in a position to respond to the easy money when it came gushing back into the economy because they no longer owned their own farms, and the businesses they had worked

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for had gone belly up. The farmers who owned their farms in the era of high prices which coincided with the war were now tenants and not buying big ticket items like trucks or tractors.

Deprived of its entry into the economy through higher prices and wages, the easy money flowed into the pockets of the speculators because it had nowhere else to go. Because that money then flowed directly into the stock market, it brought about the worst of both worlds: a bubble without any appreciable inflationary effect on wages or prices.

Since concern about the well-being of labor was not part of Benjamin Strong's job description, he ignored the havoc which his deflationary policies had wrought and focused on the magic ratio of dollars to pounds which would allow a return to prewar parity and entry into the promised land of the gold standard. As of May 1924, the pound stood at \$4.36, well below the magic number of \$4.8665. On May 27, Strong wrote to Treasury Secretary Mellon, informing him that:

At the present time it is probably true that British prices for goods internationally dealt in are as a whole, roughly, in the neighborhood of 10 percent above our prices, and one of the preliminaries to the re-establishment of gold payment by Great Britain will be to facilitate a gradual adjustment of these prices levels before monetary reform is undertaken. In other words, this means some small advance in prices here and possibly some small decline in their prices.²⁸

Strong pinned his hopes on the Dawes plan, whose main beneficiary, it turns out, was England and not Germany, because:

It will be difficult politically and socially for the British Government and the Bank of England to force a price liquidation in England beyond what they have already experienced in face of the fact that their trade is poor and they have over a million unemployed people receiving government aid. There will, however, be a period of time during which the Dawes program is being established in Germany and other debt adjustments are being effected within which cooperation between ourselves and the British can do much toward laying the price foundation required for the safe resumption of gold payment by the Bank of England.²⁹

On December 28, 1924 Norman arrived in New York heartened by a "decided improvement"³⁰ in the pound/dollar ratio. By January 1925, the pound would reach \$4.78, which was only 2 percent below its prewar parity.³¹ During his meeting with Strong and representatives of the J. P. Morgan bank in New York, Norman argued that the time had come for an early return to gold because:

British war debts to the United States had been settled, the Dawes plan was in operation, interest rates in New York were below those in London, capital flows from the United States were large, sterling was rising, and the disparity between British and American prices seemed small enough to be corrected after sterling had returned to gold.³²

Eager to implement the correction which Norman proposed and hastened the return of the golden age, Strong pursued an easy money policy to lower the dollar. As a result:

The spread in wholesale prices between the USA and Britain . . . narrowed substantially in late 1924 and early 1925 with a rise in American prices, as the Federal Reserve Board, under the leadership of Benjamin Strong of the Federal Reserve Bank of New York, pursued an easy-money policy, partly to offset a domestic recession, partly to ease the return of sterling to parity.³³

Both Strong and Norman felt that there were other reasons for an early return. If Britain did not return to the gold standard as soon as possible, their hesitation would give credence to those who felt that the economy could function perfectly well without it: "it would provide an incentive to all those who were advancing novel ideas and expedients other than the gold standard to sell their wares; and incentives to governments . . . to undertake various types of paper money expedients and inflation."³⁴

Norman's plea to the titans of New York finance is reminiscent of a letter Sigmund Freud wrote declining an invitation from his colleague Wilhelm Fliess to come to Berlin. Freud declined because, as he put it, "I'm afraid that my patients might get well in my absence." Norman claimed that "our return to gold is desired by responsible people here and opposed only by certain politicians and cranks,"³⁵ but the urgency of his plea belied his claim.

Norman feared that failure to act soon would lend credibility to Henry Ford and the fiat money crowd. The fact that fiat money performed as well as it did when all of the respectable voices condemned it as little more than government sanctioned fraud combined with the fact that the quest for "sound money" had just wrecked the American economy lent an urgency to Norman's appeal. Failure to resume the gold standard:

would provide an incentive to all of those who were advancing novel ideas for nostrums and expedients other than the gold standard to sell their wares; and incentive to governments at the time to undertake various types of paper money expedients and inflation; it might, indeed, result in the United States draining the world of gold with the effect that, after some attempt at some other mechanism for the regulation of credit and prices, some kind of monetary crisis would finally result in ultimate restoration of gold to its former position, but only after a period of hardship and suffering, and possibly some social and political disorder.³⁶

Faced with such apocalyptic alternatives, the New York money men agreed to press forward and tweak the last 2 percent by their combined financial wizardry. As a result of this decision, England returned to the gold standard on April 28, 1925, and with that act "Norman and Strong had finally achieved an objective toward which they had been working ever

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since the war.”³⁷

Norman watched his dream come true from a seat in the distinguished strangers gallery of the House of Commons. Norman emphasized the significance of the event by noting in his diary exactly when it happened, “about 4-5 PM.” Other than that only two words—“GOLD STANDARD,” in bold capitals—were necessary. Norman’s diary contained no further comment, perhaps reflecting the fact that the mood in the chamber was “neither hostile nor jubilant” but rather “indifferent and perhaps puzzled.”³⁸

The initial trepidation soon gave way to quiet satisfaction as the gold started pouring into London. Strong and Norman were “surprised by the ease with which Britain made the transition to gold.”³⁹ Eight months after Britain took the plunge, Norman traveled to New York and told Strong that he was “quite happy” with how things were proceeding.

The self-congratulation had been premature. Ominous signs of the difficulties with labor that would dog the gold standard to its early demise had already appeared on the horizon. The 2 percent disparity which had prompted Norman and his American backers to proceed with launching the gold standard, while technically accurate, was deceptively inflated because Ruhr coal had been taken off the market because of the French invasion, thereby making the normally higher price of English coal temporarily attractive.

When the Dawes Plan brought about the evacuation of French troops, it also put German coal workers back to work in the Ruhr and, because English coal was more expensive, a drop in exports was the result. Because of a significant miscalculation on “how much a resumption of production in the Ruhr would decrease foreign demands for British coal,”⁴⁰ the 2 percent disparity between the pound and the dollar was wrong. In their eagerness to return to the golden age, “Strong, Norman and many others had underestimated the extent to which sterling was overvalued when restored to its old parity of \$4.8665.”⁴¹ In their rush to return to the gold standard, Norman and Strong ignored the true costs of British production, which were too high to be competitive internationally and, worse, “inflexible downward.”⁴²

The decision to rush England onto the gold standard based on an overvalued pound had put both Norman and Strong into an insoluble bind. Norman needed to lower interest rates to promote prosperity at home, but in order to retain sufficient gold to ensure payments had to keep interest rates high, which is to say, above those in New York, even though wage and price levels in America were below those in England. That meant that:

the monetary conditions required to equilibrate Britain’s international receipts and payments were inconsistent with those necessary to promote prosperity at home. To equilibrate its international payments and receipts and to retain suf-

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ficient gold to ensure the maintenance of gold payments, it had to keep interest rates in London above those in New York and other financial centers. To avoid serious unemployment at home, it needed easy credit and low interest rates. These objectives could be achieved simultaneously only if New York and other important financial centers maintained continuously low interest rates. . . . They did not. As a result, Norman was forced to maintain relatively high interest rates at home, which militated against the recovery of employment.⁴³

There was only one way out of this dilemma: Norman had to drive down the price of labor in England. The owners' of England's coal mines seized on Norman's dilemma as a way of increasing their profits and demanded a re-negotiation of their contracts which specified more hours for lower pay. Asked to take a 10 percent pay cut, the miners refused and threatened to strike under the slogan "Not a penny off the pay, not a minute on the day." On May 1, the labor crisis which threatened the golden age took a turn for the worse when the coal owners locked the miners out.⁴⁴

The gold standard was the opposite of the self-regulating mechanism that its proponents claimed it was, largely because neither Norman nor Strong liked the outcomes it was producing. In fact, the gold standard necessitated more and more economic intervention on both Norman's and Strong's part. On November 7, 1925, seven months after the gold standard had been introduced, Strong wrote to Norman, opining without the slightest sense of irony, that "I long for the day when normal movements of gold reacting upon bank reserves and bank notes, will attend to these matters more automatically,"⁴⁵ apparently forgetting that those matters should have been settled automatically in April, when England adopted the gold standard.

As gold poured into London, Norman came under increasing pressure from both the government and the rules of the gold standard itself to expand the money supply and lower interest rates. At the same time, continued speculation in the stock market in America called for raising interest rates there. If Norman and Strong were to follow the principles of the gold standard consistently, it would mean reversing the poles of the financial world, and New York would have replaced London as its center. But for some reason they refused to do this. In light of this refusal, London could only retain her position as the center of world finance if her rates remained above New York's and she continued to draw gold, but she could only draw gold by maintaining high interest rates and an overvalued pound. That necessitated driving down wages, and thus finance entered into a collision course with politics and labor. The functioning of the system necessitated an unwelcome and therefore suppressed choice: was the final goal the gold standard's regulation of the world economy or was it England's hegemony over the gold standard and, by extension, the world economy as well?

One of the first people to notice this bind and the true cost that go-

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ing on the gold standard would exact from the British people was a young Cambridge don by the name of John Maynard Keynes. During a series of lectures and articles which appeared in 1924, Keynes attacked laissez-faire economics as an obsolete philosophy belonging to a lost world. That meant that "for good or for evil, in present day conditions laissez-faire can no longer be relied upon to furnish economic projects with the capital they need."³⁶ Keynes abandoned laissez-faire reluctantly—"not enthusiastically":

because whether we like it or not, the conditions of its success have disappeared.

It was a double doctrine—it entrusted the public weal to private enterprise unchecked and unaided. Private enterprise is no longer unchecked . . . And if private enterprise is not unchecked, we cannot leave it unaided."³⁷

With the zeal of an Anabaptist iconoclast entering the Cathedral of Antwerp, Keynes went on a rampage in the Temple of Capitalism that left its idols lying smashed on the floor by the time he was finished. In the Sidney Ball lecture, which Keynes delivered under the title "The End of Laissez-Faire," on November 6, 1924, Keynes rejected the notion that social-well being could result from individual calculations of self interest.³⁸ Once the Darwinian theories of natural selection and survival of the fittest got added to Ricardian economics, any interference in the economy became "not merely inexpedient but impious as calculated to retard the onward movement of the mighty process by which we ourselves had risen like Aphrodite from the primeval slime."³⁹

During 1924, Keynes' lectures and articles exposed "the inadequacy of laissez-faire as political philosophy, the inadmissibility of a laissez-faire attitude to foreign investment, and the need for the state to mobilize for a programme of domestic investment savings currently going abroad."³⁰

Having kicked out one pillar of classical economics by showing the inadequacy of laissez-faire, Keynes then applied his foot to the gold standard and its claim to be a self-regulating mechanism in his *Tract on Monetary Reform*. Contrary to what its supporters claimed, the gold standard did not provide price stability. In order to purchase the illusion that it did, England would have to pay a high price. It would have to deflate British prices, and to do that it would have to throw Englishmen out of work.³¹

Three months after England went on the gold standard, Keynes published a broadside against the decision which would fatally weaken government support for Norman's dream of a return to the golden age. In a series of articles which appeared in Lord Beaverbrook's *Evening Standard* on 22, 23, and 24 July and a week later in an expanded version that was published by the Hogarth Press under the title *The Economic Consequences of Mr. Churchill*, Keynes condemned Winston Churchill's "egregious recklessness"³² in returning Britain to the gold standard. Keynes dissected the gold decision and showed that, far from being some disinterested, self-regulat-

ing mechanism, the gold standard favored the creditor class alone at the expense of everyone else, but especially labor. In their determination to win the Great War at any prices, the rulers of Europe had destroyed the old order which had made the gold standard possible. "Now they expected the workers to bear the costs of trying to restore it. Just a small sacrifice, they said—and the world would be golden again, as they remembered it in the summer of 1914."⁵³

The Economic Consequences of Mr. Churchill explained how labor and usury were permanently at odds, and that no mechanism—most certainly not the gold standard—was ever going to reconcile them. Going onto the gold standard at the artificially overvalued price of \$4.86 to the pound meant that the 10 percent increase in the value of the pound would involve "a reduction of 10 percent in the sterling receipts of our export industries."⁵⁴ That loss could only be made up if wages fell by 10 percent. Britain's pre-eminence in the world of international finance could only be achieved by reducing everyone else's wages.⁵⁵

Keynes was the first to point out that the coal industry could only retain its export markets by reducing wages. This should have been obvious from the start, but the all-but-universal acceptance of the gold standard precluded any debate on the issue when the catastrophe could have been avoided. Now that the gold standard was a *fait accompli*, the conflict with labor could no longer be avoided, and, what was worse from Churchill's point of view, the politicians would be blamed for a system which benefited the City's financiers at labor's expense.

Once the true cost of going on the gold standard became apparent, the populace focused its anger on the politicians who had allowed it to happen. That meant that Winston Churchill, then Chancellor of the Exchequer, bore the brunt of the nation's ire. Churchill had initially if somewhat reluctantly supported the move to gold, claiming on April 28: "If we had not taken this action the whole of the rest of the British Empire would have taken it without us, and it would have come to a gold standard, not on the basis of the pound sterling, but a gold standard of the dollar."⁵⁶

But since he never understood the implications of what he had promoted, his support of the gold standard quickly withered under the devastating blows of Keynes's attack. By focusing his attack on Winston Churchill, the Chancellor of the Exchequer, and not Montagu Norman, the real author of the plan, Keynes attacked the gold standard at its Achilles' heel, namely the politicians who had signed off on it, rather than the City financiers who benefited from it. Churchill, who had said of his tenure as Chancellor of the Exchequer: "When I held other offices under the Crown. I could always find out where I was. Here I'm lost and reduced to groping,"⁵⁷ was totally out of his depth when it came to matters of finance. In order to get him on

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board for the gold standard Norman had tutored and coached him like "a backward pupil who was willing to be taught."⁵⁸ Churchill, who "had unwisely said that the return to gold had no more connection with the troubles of the coal industry than did the Gulf Stream,"⁵⁹ lamented his endorsement of the gold standard as the biggest blunder of his political career and would hold Norman in undying enmity for luring him into this trap: "Winston has almost come to believe" in his later years "that the decision to go back to gold was the greatest mistake of his life." Lord Moran has corroborated this: "The biggest blunder of his life had been the return to the gold standard. Montagu Norman had spread his blandishments before him till it was done, and then left him seriously alone."⁶⁰

Keynes exploited Churchill's intellectual incompetence in financial matters, and soon both he and former Prime Minister McKenna were "sapping the Chancellor's infirm faith in a policy that he had never really understood."⁶¹ Churchill took out his political frustration on Norman, with whom he would meet on a weekly basis. During those meetings, Churchill would subject the governor of the Bank of England to abusive derisory tirades, to which Norman responded by retiring "more and more into his carapace."⁶² Norman may have suffered in silence, but he learned his lesson: raising interest rates had become politically impossible. Henceforth, Norman would be forced to play his golden sonata with one hand tied behind his back.

In the weeks following the return to gold, Keynes predicted that Churchill's action in putting England on the gold standard "would secure the worst of both worlds." On the one hand, bank rates would be high enough to attract foreign funds to London, but not high enough to enforce a "deflation of credit." But on the other, Churchill, by overvaluing the pound, had ruined exports, made the country dependent on borrowing and locked the economy into permanent unemployment.⁶³

Keynes's attack on Churchill bespoke a revolutionary change in economic thought in a number of ways: because of its rejection of *laissez-faire*, because of its exposure of the real beneficiaries of the "self-regulating" gold standard, but it was even more profoundly revolutionary because it asserted the priority of labor over usury. By placing the plight of the miners at the heart of his argument, Keynes single-handedly changed the focus of discussion by reintroducing moral considerations into a system of economics which for over a century had purported to be a science akin to physics:

On grounds of social justice [wrote Keynes], no case can be made out for reducing the wages of the miners. They are the victims of the Economic Juggernaut. They represent in the flesh the "fundamental adjustments" engineered by the Treasury and the Bank of England to satisfy the impatience of the City fathers to bridge the "moderate gap" between 4.40 dollars and 4.86 dollars. They (and oth-

ers to follow) are the "moderate sacrifice" still necessary to ensure the stability of the gold standard.⁶⁴

There was a certain irony involved here because Keynes called himself an "immoralist." As an undergraduate at Cambridge, Keynes had fallen under the spell of G. E. Moore's *Principia Ethica*, which allowed him to substitute "states of mind" for immutable moral principles. In "My Early Beliefs" Keynes said, "We entirely repudiated a personal responsibility on us to obey general rules . . . We repudiated entirely customary morals, conventions and traditional wisdom."⁶⁵

No matter how shocking the Victorians found Keynes and his peers, Keynes was hardly a rebel when it came to the moral tradition of the Scottish Enlightenment, as established by Hume and Smith. Like them, Keynes believed that morality was comprised of sentiments that arose from a particular environment. And so after being inducted into the elite secret society known as the Apostles at Cambridge, Keynes's religion became "the Higher Sodomy," the term which Lytton Strachey used to rationalize their involvement in homosexual activity. Strachey explained what he meant by "the Higher Sodomy" when, under the spell of homosexual infatuation, he wrote to a friend that "it is what all of Us—the terribly intelligent, the unhappy, the artistic, the divided, the overwhelmed—most intimately worship and most passionately most vainly love."⁶⁶

Keynes' most famous pronouncement is undoubtedly "in the long run we are all dead," which can certainly be construed as the economic credo of the homosexual, a claim which recently got Harvard Professor Niall Ferguson in trouble when he proposed it at a gathering of investors in Carlsbad, California.⁶⁷

By the time Keynes took on Churchill and the gold standard, he was married to the Russian ballerina Lydia Lopkova and had outgrown his undergraduate homosexuality, much to the consternation of Bloomsberries like Virginia Woolf and Duncan Grant, but he never discovered the moral law as a form of practical reason rather than ethnically conditioned shared sentiment, something that would have significant repercussions for his theory of consumption once his principles had been adopted as the new economic standard in the late 1930s.

Keynes' lack of a coherent moral philosophy, however, did not prevent him from pointing out the injustice of the gold standard. Norman's policies, for which Churchill was to take the political blame, could succeed:

In no other way than by the deliberate intensification of unemployment. The object of credit restriction in such a case is to withdraw from employers the financial means to employ labor at the existing level of prices and wages. The policy can only attain its end by intensifying unemployment without limit, until the workers are ready to accept the necessary reduction of money wages under

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the pressure of hard facts Deflation does not reduce wages automatically. It reduces them by causing unemployment. The proper object of dear money is to check an incipient boom. Woe to those whose faith leads them to use it to aggravate a depression.⁶⁸

In his attack on Churchill, Keynes laid bare the irreconcilable conflict at the heart of capitalism. Every society had to choose whether it was going to base its economy on labor or usury. Once usury was chosen as the basis for an economy, it could only proceed at the expense of labor. Churchill found no way to respond to Keynes's charges because 1) he did not understand the gold standard or the political implications of adopting it until after they had been spelled out in Keynes's attack, and by then it was too late, and 2) he felt sympathy for the miners who were now confronted with the equally repugnant alternatives of lower wages or loss of employment.⁶⁹

When the miners rejected the mine owners' demand that they take a cut in pay and increase their hours, the owners threatened a lock-out at the end of July 1925. That lockout was narrowly averted when the government provided a 10 million pound subsidy which was to last nine months and compensate the workers for the cut in pay that the owners deemed necessary for their coal to remain competitive in foreign markets. In addition to providing this cash subsidy, the government established a court of inquiry under Lord Macmillan which was to look into the matter and propose a solution to the dilemma which Montagu Norman had forced on the nation by going on the gold standard. Surprisingly, given the nature of government inquiry, Sir Josiah Stamp issued a minority report which placed the blame squarely where it belonged at the feet of Winston Churchill and Montagu Norman. The threat of a coal strike was entirely attributable to "immediate and necessary effect of the return to gold."⁷⁰

Norman could not have cared less. He dismissed the coal miners' strike as "an essentially local display of senseless anarchy,"⁷¹ largely because of the contempt he felt for human labor. The nation could earn far more in a few minutes of usury than it could in years of squabbling over how to dig coal out of obsolete holes in the ground, to which the workers had developed an inexplicable attraction, to the point where they refused to move to seek more meaningful work elsewhere. In purely financial terms, Norman was convinced that usury was more important than labor. In this regard his eyes never wavered from their original goal, namely:

that of restoring the City to its coveted place as the heart of the financial and banking universe. Here was the best and most direct means, as he saw it, of earning as much for Britain in a year as could be earned in a decade by plaintive industrialists who refused to move with the times. The City could do more for the country by concentrating on the harvest of invisible exports to be reaped from banking, shipping and insurance than could all the backward industrialists combined. Revenue from this source, he believed, would certainly outweigh

temporary deficits in the current balance of payments. Norman never faltered in his faith.⁷²

Nor were his arguments refutable, unless carried to their logical *reductio ad absurdum*, as in the tale of King Midas. It is undeniable that more money can be earned more easily by usury than by any other form of economic endeavor. It is also undeniable that usury can be nothing other than parasitic on more worthwhile and productive forms of economic activity. The more usury becomes acceptable the more it leads the economy into a self-consuming self-destructive death spiral by first devouring human labor and then making it impossible. England's coal strike of 1925 was a moment of truth which got ignored because virtually its entire political class had been blinded, like Norman, by the lure of easy profits from usury. Keynes alone posed the question which exposed the injustice at the heart of the gold standard. He was smart enough to see that the era of laissez-faire had ended and that the only economic system which could replace what had failed was one based on the moral law, even though he would have doubtless repudiated the term, as when he claimed:

We stand mid-way between two theories of economic society. The one theory maintains that wages should be fixed by reference to what is "fair" and "reasonable" between classes. The other theory—the theory of the economic juggernaut—is that wages should be settled by economic pressure, otherwise called "hard facts," and that our vast machine should crash along, with regard only to its equilibrium as a whole, and without attention to the chance consequences of the journey to individual groups.⁷³

Keynes argued against the policy of cutting wages up to the end, but in spite of his credentials, he was not part of the government and so had to watch the crash helplessly from the sidelines. One month before the expiration of the subsidy, the Samuel Commission recommended wage cuts for the workers and reorganization for the mine owners, a solution which both sides rejected. When the miners' representatives arrived at 10 Downing Street for a final round of negotiations on Friday April 30, they found that Prime Minister Baldwin had already gone to bed. The subsidy expired at midnight and the workers went on strike the following day. The miners held out until the autumn of 1926, at which point, faced with starvation, they capitulated to the mine owners and went back to work for reduced pay. The gold standard had triumphed after all, at least for the time being, but:

The unions remained unappeased and unbowed. The industrial heart lands of Northern England, Scotland and Wales, already distressed and soon to be crippled by the great depression, were alienated from the Westminster system. The whirlwind was reaped only in the 1970s when, strengthened by decades of full employment and pro-union legislation, the trade unions paid back the governments and the middle classes for the wrongs inflicted between

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the wars. In 1984, the miners rose again, in a conscious, but much more vicious echo of 1926 and were crushed again. But by this time Keynes's Middle Way of class conciliation and full-employment had been abandoned. On those terms Britain had proved to be ungovernable, but it might have been very different if it had been tried in 1926.⁷⁴

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The Golden Age Returns

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Chapter Ninety-One

The French Reaction

In the middle of the coal miners strike in England, the government fell in France and on July 20, the former finance minister Robineau was replaced by Emile Moreau, a short squat and unprepossessing native of Montmorillon in Poitou, who "looked like the provincial that he was."¹ Moreau's first and only loyalty was to the French people. He was the quint-essential French patriot, and as such congenitally suspicious of titans of international finance like Montagu Norman, Hjalmar Schacht, and Benjamin Strong.

Unlike Schacht, Moreau balked at being inducted to the club of international anglophile bankers. Moreau kept a copious diary which became a catalogue of his suspicions that the English, Americans, and Germans were engaged in a financial version of *Einkreisung* against the French. Moreau described Norman as "profoundly English," which is to say "an imperialist" who "wants his country, which he loves passionately, to dominate the world." Norman told Moreau that "the Bank of England is my sole mistress. I think only of her, and I've dedicated my life to her." Moreau saw that Norman was "very close" to Dr. Schacht and that the two of them were involved in "hatch[ing] up secret plots" to the detriment of the French.²

One week before he took office, on July 12, 1926, Moreau recounted a conversation with his associate M. Quesnay, who spoke "to me at length about the secret intentions of the Governor of the Bank of England; M. Montagu Norman is said to have imperialistic designs on all European banks of issue."³ Quesnay's observation only confirmed Moreau's suspicions. Norman, according to Moreau:

Doesn't like the French. He tells me literally: "I am quite willing to help the Bank of France. But I hate your Government and your Treasury. For them I will do nothing. . . ." He is not a friend of the French. Very mysterious, very complicated, one never knows what is in the back of his mind.⁴

Reading between the lines, Moreau suddenly understood that Norman expected the financial representative of the new Poincaré government to travel to London, as Schacht had done three years earlier, and beg for admission to the international gold standard club, as Schacht had done, on Norman's terms, after which Moreau would be rewarded, as Schacht had been, with a generous loan. The main criterion for admission would be pegging the franc in a relationship to the pound that was advantageous to the English, which is to say, just as overvalued. "The Governor of the Bank of England," Moreau confided in his diary, "thinks it would be indispensable

for us to ensure as quickly as possible that our bills are convertible at a fixed rate, at least for external payments under the gold Exchange Standard.”⁵ But Moreau, aware of the difficulties which England was having because of its overvalued pound, held fire. Although more than 30 countries had followed England onto the gold standard:

The French had put off the day of decision—wisely as events would prove, though the wisdom was partly fortuitous. It had not been an easy passage for Britain since April 1925: the pressure for loans on London had caused a steady outflow of gold, and since the Bank of England had no control over the credits offered by the City’s private bankers, Norman was eventually forced to raise interest rates.⁶

After a conversation with M. Vissering, President of the Dutch Bank, Moreau concluded that the influx of gold to England which had been the result of restoring sterling to parity had succeeded at the expense of British industry, exactly the conclusion that Keynes had arrived at a year earlier. The policy of adjusting the value of the pound to what would attract gold rather than what would promote labor, via exports, had aggravated the labor crisis in England “by increasing its real costs,”⁷ causing Moreau to vow that the same thing would not happen in France. In order to prevent that from happening, Moreau, following Poincaré’s advice, refused to set a fixed rate for the franc for almost three years. In the meantime, the French settled on a secret, *ad hoc* rate of between 120 and 125 francs per pound, because it represented “a balance of the sacrifices demanded of the different social classes in the population, creditors and debtors, lenders and producers”⁸ rather than the interests of the usury class alone.

The results of the French decision were dramatic. Exports began to boom; distrust in the French economy was replaced by confidence: “Flight from the franc into foreign currencies stopped abruptly and money began to flow into France,”⁹ and before the end of 1926 it had become clear that “no large foreign credits to either the Bank of France or the French government would be required to induce a flow of capital to France.”¹⁰ Since much of the money which flowed into France was denominated in pounds sterling, the Bank of France began to acquire a tremendous capacity to influence the London money market and the financial position of the Bank of England. France could now tighten credit in London and deplete the gold reserve of the Bank of England by converting its sterling balances into gold.¹¹

By favoring labor over usury, France had beaten the English at their own game. By lowering the value of the franc in order to give French labor the benefit of access to the export market, France did the exact opposite of what the Bank of England had done when she sacrificed English labor to an overvalued pound. In the field of open economic battle, labor had triumphed over usury, and the gold standard had been exposed as the sham that Keynes and the American populists had said it was. Eventually, Keynes

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confronted Norman in person over the attack on labor that was always the obverse side of the gold standard coin. As part of a full-scale inquiry into the failure of the gold standard, Keynes asked Norman:

"So it is of the essence of the case that the bank-rate should have an important effect; that when it is raised it should have an effect in the direction of unemployment. That is what you want. Am I right?"

"Yes," said Norman vaguely, "I should think it was."¹²

Norman gave "the indelible impression of a withdrawn and unfeeling man who did not appear to care how many men had subsequently been thrown out of work, since he regarded unemployment as none of his business. . . . He added that labour problems were not the Bank's affair."¹³

The demise of the gold standard was now only a matter of time, and France held all the cards. In May 1927, the Bank of France began to withdraw gold from London to deflect a speculative attack on the franc whose purpose was, Moreau believed, to drive up the value of the franc and ruin French industry. Since Moreau felt that the attack was:

financed by borrowings in foreign money markets at low rates of interest, his proposed remedy was to tighten credit and raise interest rates in those markets, especially in London and Berlin. To achieve this he began to withdraw gold from London and Berlin and to insist that unless the Bank of England raised its discount rate he would withdraw more gold. Norman, already under pressure to ease credit, i.e., lower interest rates for the benefit of industry, was unwilling to surrender to Moreau's ultimatum.¹⁴

Recognizing the serious threat which Moreau's actions posed, Strong came to Norman's rescue by flooding America with easy money in 1927. As soon as the Fed lowered its interest rates, gold stopped flowing into the United States, relieving the pressure that the French had put on Norman and the Bank of England. Unfortunately, what was good for England was bad for the United States because Strong's easy money policy set off an orgy of stock market speculation that would ultimately end in the catastrophe of 1929. By the time that happened, Strong would be dead, which is where everyone ended up in the long run. But in the short run, his strategy seemed to be working. When Strong left for London in December 1927, he was highly pleased with the international monetary situation.¹⁵

In the meantime, Moreau had exposed the covert purpose of the gold standard: English financial hegemony over the world:

I explained to the President of the Council that England, having been the first European country to reestablish a stable and secure money has used that advantage to establish a basis for putting Europe under a veritable financial domination. The Financial Committee at Geneva has been the instrument of that policy. The method consists of forcing every country in monetary difficulty to subject itself to the committee of Geneva, which the British control. The remedies pre-

scribed always involved the installation in the central bank of a foreign supervisor who is British or designated by the Bank of England, and the deposit of a part of the reserve of the central bank at the Bank of England, which serves both to support the pound and to fortify British influence. To guarantee against failure they are careful to secure the cooperation of the Federal Reserve Bank of New York. Moreover, they pass on to America the task of making some of the foreign loans if they seem too heavy, always retaining the political advantages of these operations.¹⁶

Moreau was determined to correct the situation because if he did nothing the world's currencies would end up "divided into two classes. Those of the first class, the dollar and the pound sterling, based on gold, and those of the second class based on the pound and the dollar—with part of their gold reserves being held by the Bank of England and the Federal Reserve Bank of New York." The situation was both intolerable and unnecessary, now that France had "the means of exerting powerful pressure on the Bank of England."¹⁷

By the end of 1926 it had become clear that France would not have to go hat in hand to the English to borrow money, as Schacht had done two years earlier: "Confidence in the franc had risen. Private French funds were being repatriated in ever increasing measure, and on a more restricted scale foreign investors, including many with sterling to sell, were being drawn to Paris."¹⁸

Moreau had turned down Norman's invitation to become a member of the elite club of gold standard central bankers. Moreau turned the tables on the English and the Americans by taking the principles of the gold standard more seriously than its defenders did. By pegging the franc low, Moreau created a favorable climate for French manufactures, which after they were exported, allowed France to accumulate large reserves of Sterling. With this as their leverage, the French asked Norman to raise English interest rates to curb speculation on the franc. When Norman refused, the French demanded gold for their sterling notes and wrecked the gold standard.

The story unfolded step by step with Norman, the tragic hero blinded by hubris, in the lead role, and Moreau playing Nemesis, the figure who would bring about moral—and in this case, economic—equilibrium after the fall of Norman's gold standard. Moreau accomplished this by favoring labor over usury, and he accomplished that by keeping the value of franc low. Moreau had learned from Norman's mistake of prematurely overvaluing the pound, which had "provoked permanent unemployment without precedent in history."¹⁹ Poincaré and Rist had worked out in secret an exchange rate of 125 francs to the pound. Unlike the English figure of \$4.86 to the pound, which was calculated solely in the interest of the usurer class and the gold standard, the 125 figure was a compromise which sought "to represent a balance of sacrifices demanded of the different social classes in

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the population—creditors, and debtors, lenders and producers.”²⁰ Instead of arriving at an exchange rate that benefited the international usurer class at the expense of labor, as England had done, the French chose a devalued franc “with the express purpose of inflicting the least possible damage and loss on the French nation as a whole.”²¹ As a result Moreau ended up with big sterling balances which allowed him to secure “a vice-like grip on the London money market.”²²

In May of 1927, Moreau instructed the Bank of France to withdraw gold from the Bank of England. Norman was furious, but he had no legitimate complaint: he was hoisted on his own gold standard petard. At around the same time, Churchill woke up to the fact that the gold standard, in addition to permanently antagonizing labor against the Chancellor of the Exchequer and the government he represented, had placed a deadly financial weapon in the hands of the French. Churchill held Norman responsible for his political difficulties, and his weekly harangues in Norman’s office at the Bank of England became exponentially more vitriolic. Norman’s imprudent decision to place England on the gold standard based on an overvalued pound had severely limited his ability to act on both political and economic fronts. Churchill had made it clear to Norman in no uncertain terms that he could not even think of raising interest rates, making Norman’s defense of the pound dependent on Strong’s willingness to lower rates in America. On the other hand, Norman’s failure to raise interest rates was fueling the speculation, centered in the City, that was driving up the price of the franc, which threatened to kill the French export industries which were driving France’s economic recovery. Caught between Churchill, who forbade Norman to raise interest rates or suffer the political consequences, and Moreau, who threatened to keep drawing gold from the Bank of England if he refused to raise them, Norman suffered in silence, a sure sign that one of his periodic mental breakdowns was imminent.

As a last resort, Norman turned to his friend Ben Strong and asked him to take the pressure off the pound by lowering interest rates in the United States. Strong promptly agreed, and on “July 27, only about two weeks after the visit of Norman, Schacht and Rist, the Open Market Investment Committee and the Federal Reserve Board decided on the now-famous easy money policy of 1927.”²³

Unfortunately, Strong and Norman’s plan backfired because American wages were too low to sop up the money, which went into the pockets of speculators, who fueled another stock market boom. In 1931 Adolph Miller [called it] “one of the most costly errors committed by it or any other banking system in that last 75 years.”²⁴

Given the weakened state of the real economy, the flush of excess liquidity pumped into the banking system was not needed for transactions

in real commerce or production. It had nowhere to go but into speculation in the stock market, artificially inflating financial values and fueling the run-up of stock prices that ended abruptly in the autumn of 1929. Once again Strong had acted in the interests of the central banks of Europe rather than the interests of the American people by “trying to stabilize things so the gold standard could be restored internationally.”²⁵

Both Strong and Norman were, in reality, Keynesians, manipulating the money supply through their respective central banks. The irony which was too big to overlook lay in the fact that the point of their manipulations was to maintain the gold standard, which they claimed was a self-regulating system. The real system was the exact opposite of what they claimed it to be. Instead of gold regulating the money supply, the money supply, regulated by the interest rates Strong and Norman set, determined the flow of gold. After the inauguration of the easy money policy of 1927, the United States lost \$580 million in gold. After the Fed reversed itself and created the tight money policy of 1928, \$260 million flowed back into the US, a flow that would have continued if it hadn't been cut short by the Crash of '29.

As a result of his actions, Strong lost credibility and was increasingly seen as an agent of international (i.e., English) finance at a time when isolationism was running high in American politics. Strong flooded the economy with money that could not end up in the hands of the people and become productive because his deflationary policy of 1920-1 had permanently depressed both wages and prices. Because of industry's implementation of new technologies, the productivity of an hour of labor rose by an astounding 63 percent,²⁶ with no concomitant rise in wages. As a result, the easy money had only one place to go, namely, into the stock market, where it fueled another bubble, which would necessitate a rise in interest rates at some unforeseen future date, which would put Norman in the same dilemma.

In the short run, however, Strong's strategy seemed to be working. When he met with Norman in London after Christmas 1927, Strong was hopeful that his policy of supplying gold to France at cost would take the pressure off of London and allow the gold standard ship to sail into calmer waters. The momentary lull, however, proved to be nothing more than the calm before the storm.

On February 21, 1928, Moreau left for London “to offer Norman war or peace.”²⁷ Unlike Schacht, who would periodically kill the positions of the speculators by cutting off their credit, neither Norman nor Strong would interfere in the credit-fueled machinations of the City or Wall Street no matter how harmful their speculations were to the economy as a whole. Knowing that he could not bite the hand that fed him, Norman refused to meet with Moreau, who was left cooling his heels or engaged in meaningless meetings with subordinates. After Norman's intentions became clear,

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Moreau drew his own conclusions. "The Bank of England," he wrote in his diary, "has undertaken certain formal engagements. I shall call upon the Bank to carry them out."²⁸ If Norman chose to fight with his sword of gold, Moreau would ensure that he would die by it as well.

Four months after failing to persuade Norman to raise the Bank of England's interest rates, Moreau announced that the Bank of France had officially stabilized her currency at the undervalued rate of 125 francs to the pound. French exports would continue to prosper; the Bank of France would continue to draw gold from the Bank of England. Norman responded in typical fashion. Within days of the French announcement, Norman was on the high seas again, taking one of his periodic recuperative ocean voyages, and leaving the economic affairs of the world in the hands of his subordinates with instructions to hold the fort until his return.²⁹

This time there would be no rescue expedition organized by the Americans. Strong did what he could, "plead[ing] with Moreau not to create unnecessary trouble for Britain by draining off her gold,"³⁰ but faced with a growing stock market bubble on Wall Street, he was forced to announce that the Fed was raising its rates. Strong's protracted and fruitless negotiations with the French finally wore down what was left of his failing health, and he died at the age of 55 in October 1928. His death combined with Norman's periodic and prolonged absences while recovering from periodic bouts with depression on the high seas left the world's financial system essentially rudderless at a time when its management was more necessary than ever. Had Strong remained at the helm of the Fed he might have been able to back away from the Fed's tight money course before the fatal crash of October 1929, but with his death the question became purely hypothetical. The evidence suggests that the Fed provided its governor with the mechanism to deal with the bust and boom cycle but not the wisdom to know when to apply it. Chandler, his biographer, feels that:

Strong was among the first to recognize that the old rules of central banking, which implicitly assumed a smoothly functioning international gold standard, were obsolete and that radically new concepts of central banking would have to be developed.³¹

During the summer of 1928, Strong was aware that speculation was creating a dangerous stock market bubble, but he lacked the wisdom of how to deal with it without crashing the entire economy, which is precisely what happened, even if he were no longer around to witness the fruits of his labors when it did.

After Ben Strong's death, Norman slowly came to realize how isolated and comparatively friendless he was among central bankers. When Schacht resigned as president of the Reichsbank in March 1930, that isolation only deepened. With Schacht and Strong gone, Norman was running out of op-

tions. The halcyon days of America rescuing Europe through things like the Dawes Plan were over, and Germany was no better off than England when it came to gold reserves:

Only France was sitting pretty. After Moreau and the monetary legislation of 1928, she had virtually supplanted the United States and the main hoarder of gold. With their balanced economy, too, the French were in a better position than ever to dictate to other countries at will.³²

But France was not inclined to help. Norman had let that chance slip away when he refused to meet with Moreau in 1927.

Endnotes

1 Lester V. Chandler, *Benjamin Strong: Central Banker*, (Washington, D.C.: The Brookings Institute, 1958), p. 364.

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3 Chandler, p. 364.

4 Ibid.

5 Boyle, p. 201.

6 Boyle, p. 200.

7 Boyle, p. 205.

8 Chandler, p. 371.

9 Chandler, p. 366.

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12 Boyle, p. 256.

13 Boyle, p. 257.

14 Chandler, pp. 372-3.

15 Chandler, p. 378.

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17 Chandler, p. 380.

18 Boyle, p. 226.

19 Ibid.

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23 Chandler, p. 438.

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31 Chandler, p. 477.

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Chapter Ninety-Two

The Crash of '29

On October 24, 1929—Black Thursday—the bubble finally burst, and the “calamitous break” that Strong had feared occurred one year after his death. Within days, the Standard and Poor’s composite index of stocks fell from 245 to 162, wiping out more than one-third of the stock market’s value. Roughly \$7 billion in bank loans to financial investors was rendered worthless. A “panicky feeling about money,” as Strong had called it, swept the nation and the world. . . . Adolph Miller of the Federal Reserve Board, among others, charged that Strong had personally engineered the major easing of credit in the summer of 1927 . . . that . . . permitted the artificial investment boom to take off.”¹

As money disappeared on a massive scale following the liquidation of bank debt due to defaults and bankruptcies, the Fed’s moment had clearly arrived. It could have reduced interest rates or purchased billions in government securities, thereby reinflating a rapidly deflating economy, but after the Crash of '29, the Fed did nothing. The Federal Reserve System, which had been explicitly created to prevent crises like the Crash of '29, had not only done nothing to prevent it, its policy makers actually saw the crash as a good thing and did nothing to hinder its catastrophic effects as they unrolled through the economy:

The central bankers of 1929 did not view the economic collapse as an unfolding tragedy, at least in its opening phases. On the contrary, they regarded it as a normal correction to excess. Ten months after the stock market crash . . . George W. Norris of the Philadelphia Fed sounded almost pleased by developments The Federal Advisory Council urged the central bank to let nature take its course. . . . Andrew Mellon made the same case with chilling clarity. The way out of the Depression, he confided to Herbert Hoover, was more failure and unemployment, more liquidation. “Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate,” Mellon declared. . . . Panic and recession were good for people. “It will purge the rottenness out of the system,” Mellon explained. “People will work harder, live a more moral life. Values will be adjusted and enterprising people will pick up the wreck from less competent people.”²

When it finally acted, the Fed only made matters worse by prescribing the exact opposite of the medicine which the sick economy needed. In October 1931, in the midst of the worst depression in American history, the Fed raised the discount rate by two percentage points, plunging the economy deeper into the depression the Fed had been created to cure. Within six months industrial production fell another 26 percent and the money supply shrank by another \$90 million.³ Six months later, when the dam-

age it had done to the economy had become too obvious to ignore, the Fed embarked upon the opposite course by buying up Treasury notes to reflate the economy but pursued this course in a half-hearted manner and discontinued it before it could do the economy any good. Even these timid measures ensured the opprobrium of the banking fraternity, because as George Norris of the Philadelphia Fed pointed out, "Further increases in excess reserves would adversely affect bank earnings."⁴

By this point, it had become obvious to all but most obtuse observer of the economic situation in America that the Fed had been created to serve the interests of the big banks, even when these interests clashed violently, as they did during the 1930s, with the interests of the overwhelming majority of the American people. As a result of this covert allegiance to the usury class, the Fed backed away from any further attempt to reflate the U.S. economy; "The infusions of new money were halted. And nature followed its course to a climax of destruction."⁵

Toward the end of September 1931, while on one of his periodic recuperative cruises on the high seas, Montagu Norman received a cable from George Harrison, Benjamin Strong's successor as head of the Fed, asking Norman whether he could shed any light on "the sudden drop in Sterling."⁶ Norman wrote back that he could not explain the drop, largely because—although he did not mention this in the cable—he had been absent from his post at the bank since July 28, when he left the Bank "feeling queer."⁷ On the same return voyage, he had received another more cryptic note announcing that the "Old Lady goes off on Monday."⁸ The old lady in question was the Old Lady of Threadneedle Street or the Bank of England, and it referred to the imminent abandonment of the gold standard, but Norman mistakenly thought it referred to his mother going on holiday.

When Norman's ship, the *Duchess of Bedford* finally docked at Liverpool on September 23, England had been off the gold standard for two days, and Norman's life work lay in ruins, never to be resurrected. Eight days before Norman's ship docked at Liverpool, sailors at the Invergordon naval base had rioted because of lack of pay causing a loss of confidence in England's financial position and a run on the pound. "The reaction of foreign investors was one of instinctive panic. Gold sped from the Bank of England like lightning. Nearly 40 million pounds sterling vanished in a single week."⁹

Investors had been nervous since March 1931 when the Macmillan Report revealed that London was technically bankrupt, owing 471 million pounds, which were covered by only 153 million pounds of short money assets, leaving it exposed to a net shortfall of 254 million pounds.¹⁰ Given this precarious financial situation, the uprising at Invergordon was the straw that broke the camel's back. On Monday, September 21, 1931, Philip

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Snowden suspended convertibility, and England was taken off the gold standard once and for all. The gold standard had collapsed, never to return.¹¹

Keynes, "chuckling like a boy who has just exploded a firework under someone he doesn't like,"¹² felt vindicated and explained why in an article which appeared seven months later:

By the return to the gold standard in 1925, at an unsuitable parity, the Bank had set itself a problem of adjustment so difficult as to have been well-nigh impossible. . . . the policy actually adopted was to preserve a middle course—with money dear enough to make London an attractive centre for foreign short-term loans but not dear enough to face an adjustment of internal costs. In this way we tided over the immediate situation by exploiting London's immense reserves of credit and prestige. . . . But the inevitable price of this temporary ease was the accumulation of a heavy burden of short-term liabilities. . . . Sooner or later, for good reasons or bad, some loss of confidence might arise; and then the insecure system had to crumble.¹³

In his own post-mortem, Russell Leffingwell, board member of the Fed, blamed Keynes and accused Norman and Strong of being closet Keynesians:

Thus, it is an ironical fact that Ben and Monty, although they expressed themselves as bitterly opposed to Keynes's managed money policy, did in fact themselves . . . pursue Keynes's policies, not quite wholeheartedly to be sure, but with sufficient vigor to create a first-rate disaster in this country . . . I hold Ben and Monty and Keynes, a strange trio, responsible for the disaster . . . Without the managed money inflation which Ben and Monty deliberately created from 1925 to 1929 in this country, in pursuance of Keynes's ideas, this country would not have had the great boom or the great disaster.¹⁴

Leffingwell's critique may not be accurate in portraying who was on which team, but it does expose the irony at the heart of the gold standard—it could only be held afloat by a Keynesian manipulation of the money supply of a sort that the gold standard was supposed to render unnecessary. That critique also misses the bigger point. The main thing that doomed Norman's return to the golden age was his determination to shortchange labor to benefit usury. The overvalued pound, as Keynes had pointed out, led inexorably to the collapse of the gold standard. Conversely, the French decision to value labor over usury allowed them to elude the golden shackles that the Anglo-Americans had prepared for them. Leffingwell, as one has come to expect from a defender of the Fed and the usurious system it stands for, gets it exactly wrong when he faults Norman for not "completing the deflation on classical lines by making money dearer in England" without any recognition of the fact that raising interest rates even further in England would have generated political reprisal from Winston Churchill and, most probably, armed insurrection among the working class. Un-

surprisingly, Leffingwell's views "became the conventional wisdom in the New York banking community."⁵ Like Leffingwell, Lamont blamed labor as the ultimate cause of the gold standard debacle: "the mistake was in permitting the trade unions, after the general strike, to impose a rigid wage scale on British industries and subsidizing the resulting unemployment by the dole."⁶

With attitudes like this embedded in the mind of the New York banking community, the same policies which led to the depressions of 1920-21 and the 1930s, would get repeated when Paul Volcker became chairman of the Fed in 1979. Given the stark nature of the alternatives—usury or labor—and given the history of the Fed as representing the interests of the usury class, Volcker was condemned to repeat the mistakes of his predecessors and wreak havoc on the economy once again in the name of "sound money."

More immediately, as George Harrison, Strong's successor as governor of the Fed, pointed out, the economic chaos of 1931 led to the rise of Hitler and precipitated the Second World War. Norman would continue as the head of the Bank of England for another 12 years, under diminished circumstances, until he retired for health reasons in 1944. Unlike Schacht, Norman never wrote his memoirs, but when asked about his life's work shortly before his death in 1950, he replied:

we achieved absolutely nothing. . . By and large nothing that I did, and very little that old Ben did internationally produced any good effect—or indeed any effect at all except that we collected money from a lot of poor devils and give it over to the four winds.⁷

Endnotes

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1967), p. 266.

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Chapter Ninety-Three

Quadragesimo Anno and the Italian Reaction

In 1931, the same year that the gold standard went bust. Pope Pius XI issued *Quadragesimo Anno*, his encyclical on economics, on the 40th anniversary, as its title indicates, of *Rerum Novarum*. According to Pius XI, *Rerum Novarum* “boldly attacked and overthrew the idols of liberalism, swept aside inveterate prejudices, and was so unexpectedly in advance of its time, that the slow of heart scorned the study of this new social philosophy, and the timid feared to scale its lofty heights.”¹ Now that the “tottering tenets of liberalism” had been overthrown, the laissez-faire shackles, “which had long hampered effective interference by the government,” were gone, and man could address the economic situation more effectively by applying the tenets of practical reason to the contemporary situation to restore the economic order through “the only way to a salutary cure,” namely, “a reform of conduct on Christian lines.”²

The first item on the agenda was—as Leo XIII had already indicated, taking his cue from Bishop von Ketteler—“*die Arbeiterfrage*,” the labor question. The fundamental situation remained as it was when Leo XIII had described it in *Rerum Novarum*. Labor was the source of value: “hence, it may truly be said that all human subsistence is derived either from labor on one’s own land, or from some toil, some calling, which is paid for either in the produce of the land itself, or in that which is exchanged for what the land brings forth,”³ but capital laid claim to all of the fruits, over a subsistence wage, which derived from human labor. The main problem, uncorrected since *Rerum Novarum*, was low wages, and it remained a problem because capital, according to Pius XI:

was long able to appropriate too much to itself: it claimed all the products and profits, and left to the worker the barest minimum necessary to repair his strength and to ensure the continuance of his class. . . . For by an inexorable economic law, it was held, all accumulation of capital falls to the wealthy, while by the same law the workers are doomed to perpetual want or to a very low standard of life. It is indeed true that the course of things did not always and everywhere correspond with this thesis of the so-called Manchester School; but it cannot be denied that the steady pressure of economic and social tendencies was in this direction. That their erroneous opinions and deceitful axioms should have been vehemently assailed, and not merely by those whom they deprived of their innate right to better their condition, will assuredly surprise no one.⁴

As an alternative to Ricardo’s Iron Law of Wages, Pius XI proposed the

family wage as the universal norm of economic justice. The wage paid to the working-man could not be left to the vagaries of market forces, to rise and fall according to supply and demand in a race to the bottom that led to the extinction of the labor that created wealth. Rather, that wage “must be sufficient for the support of [the working man] himself and his family.”⁵ A necessary corollary was the freedom to organize with other workers and strike if necessary, even though “not a few nations were deeply infected with liberalism and regarded such unions of workingmen with disfavor, indeed with open hostility.”⁶

The main premise underlying QA was that capitalism as the philosophical rationalization of usury had failed, and, as a result, the main threat to the social order now came from the opposite end of the political spectrum, which is to say from socialism and communism. Like Bishop von Ketteler, Pius XI rejected socialism as a solution to the labor question. Christian socialism was an oxymoron or, as he put it, an expression “implying a contradiction in terms” because “no one can be at the same time a sincere Catholic and a socialist properly so called.”⁷ Socialism and Capitalism were, in effect two sides of the same coin. Socialism came into being as a reaction to the excesses of liberalism, which came into existence when the descendants of the Reformers tried to come up with a philosophical justification for retaining the property which their forebears had stolen from the Church during the Reformation. Pius XI focused on the part of that dialectic that was unfolding in his day, after the Crash of ’29, when he claimed that: “the parent of this cultural socialism was liberalism, and that its offspring will be bolshevism.”⁸

As a result of this historical focus, *Quadragesimo Anno* did not mention usury, not even in the perfunctory fashion in which *Rerum Novarum* had mentioned it, most probably because usury was bound up inextricably with the Jewish Question. *Civiltà Cattolica* had addressed the Jewish Question forthrightly from a Catholic perspective in 1890, but by the time QA appeared, the rise of Hitler’s anti-Semitism had terminally contaminated the Jewish usury issue with racial overtones incompatible with Catholic thought. Pope Pius XI, who contemplated but never released an encyclical on racism, could have dealt with the issue head on, as *Civiltà Cattolica* had under the guidance of his predecessor Leo XIII, but instead he asked *Civiltà Cattolica* to table further discussion of the Jewish Question, and with it, the usury discussion got tabled as well.

QA focused on philosophical issues like liberalism or, more specifically, Manchester liberalism, or when dealing with more narrowly economic issues, QA would talk about “capital,” without unpacking the term. As a result of what had to be construed as the influence of Karl Marx, a fatal ambiguity began to creep into the discussion of the economic situation in the

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aftermath of what everyone perceived as the fall of capitalism in 1929. In typically Marxist fashion, the term “capital,” as it came to be used in common parlance, conflated two very different issues: it referred to both the banking system, which was inextricably bound up with usury, and so in conflict with the moral law, and manufacturing, which often received usurious financing for capital expansion from the banks, but was in se morally licit. As the situation in America prior to the founding of the Federal Reserve System had shown, manufacturing when protected from predatory free trade could often fund capital expansion out of profits. Beyond that, equity investment which shared risk was in se morally licit as well, even though all of these options got lumped together under the Marxist understanding of “capital.” Similarly, the owners of factories were, more often than not, guilty of driving wages down to subsistence level, but, as Henry Ford had shown, again in America, this need not be the case, and ultimately it was not in the interests of the manufacturing class, as the Ford Motor Company showed in 1947 when it finally agreed to bargain with the United Auto Workers Union.

In other words, the conflict between capital and labor in the field of manufacturing was extrinsic, but it was intrinsic to the relationship between banking capitalism and labor because of the usury question. Any use of capital which involved shared risk was intrinsically licit; any use of capital which placed all of the burden of risk on the weaker party, which was the case with a loan, was not. The essentially Marxian term “capital” covered both circumstances and did not make the distinctions that were necessary to get to the heart of the problem. As a result, any discussion of the most fundamental issue—namely, the relationship between usury and labor—got prorogued to another day. Like Mark Twain’s death, reports about the demise of capitalism in the immediate aftermath of the Crash of ‘29 would turn out to be greatly exaggerated. When Capitalism revived after the American dollar assumed hegemony over the world financial system after World War II, it came back to life in an era in which the labor question seemed to have reached a solution. That solution turned out to be more ephemeral than any one would have believed during the heady days of rising prosperity during the 1950s, but it was a solution in no small way attributable to QA’s support of labor.

In 1932, one year after the publication of *Quadragesimo Anno*, a young professor at the newly founded Catholic University of the Sacred Heart in Milan by the name of Amintore Fanfani submitted a manuscript to the Catholic Union for the Social Sciences. The thesis of that manuscript, which would be published as *Catholicism, Protestantism, and Capitalism* four years later, was that: “there is an unbridgeable gulf between the Catholic and the capitalistic conception of life.”⁹

Fanfani, who was born October 6, 1908 and died November 20, 1999, would implement Pius XI's view of labor as one of the leading lights of the Christian Democratic Party in Italy and bring about what is still termed Italy's economic "miracle"²⁰ after World War II. As Ettore Bernabei pointed out in *L'Italia del miracolo e del futuro*, "the flourishing development of the Italian economy in the postwar period has to be attributed to the ideas of Fanfani," which "transformed Italy into a peaceful industrial power which was ranked fourth among the seven most industrialized countries in the world."²¹

QA's rehabilitation of labor as the source of all value had a similarly transformative effect on the economies of Germany and the United States, where Catholic influence had reached a peak which found its culmination in the election of John F. Kennedy. But rehabilitation of labor, while ameliorating the economic situation in salutary fashion, did nothing to extirpate the evil of usury from the capitalist system. In fact, the rising tide of prosperity that derived from a combination of Keynesian economics and QA's rehabilitation of labor, especially among unionized Catholic blue collar workers, simply disguised the usurious shoals lurking beneath the surface of these countries' booming economies by raising the general level of prosperity.

Fanfani, who saw the Crash of '29 as a "swan song"²² for the laissez-faire era, wrote his own critique of capitalism with QA in mind: QA provided "a continuous point of reference, specifically in its powerful condemnation of the failure of capitalism and the damage it produced, along with its suggestion that the Guilds were the ideal answer to the economic and social crisis of the period."²³

Mussolini eventually implemented Fanfani's suggestions about Guilds, as a way of bringing about a reconciliation between capital and labor, but, at least in the pre-World War II era, the focus of Fanfani's work was primarily theoretical, not practical as it would be after the war. In order to come up with a Catholic critique of capitalist principles, Fanfani needed to come to grips with the "Spirit" of Capitalism, as articulated by Max Weber because it lent to Capitalism a legitimacy which it did not deserve. Behind the Weber thesis stood the whole edifice of English Whig history which claimed that the rise of England as an economic power came about because of the superiority of English—which is to say, Protestant—ideas, specifically the English idea later espoused as capitalism.

In 1904 and 1905 the German Sociologist Max Weber wrote two articles on the origins of Capitalism which were published after Weber's death in 1920, under the title, *The Protestant Ethic and the Spirit of Capitalism*. The heart of the Weber thesis lies in the contention that Capitalism was created by pious Protestants in the 17th century: "The force which produced it was

the creed associated with the name of Calvin. Capitalism was the social counterpart of Calvinist theology." This explains why the "business leaders and owners of capital . . . are overwhelmingly Protestant."⁴

Michael Novak, a latter day apologist for the Weber thesis, claims that the vocation of businessman became for the Calvinist: "a strenuous and exacting enterprise to be chosen by himself, and to be pursued with a sense of religious responsibility. Baptized in the bracing, if icy, waters of Calvinist theology, the life of business once regarded as perilous to the soul—*summe periculosa est emptionis et venditionis negotiatio*—acquires a new sanctity."⁵

Fanfani saw a correlation not so much between Capitalism and virtuous Protestantism as between Capitalism and "a regressive and virtually degenerate form of Catholicism,"⁶ and his demolition of the Weber Thesis rejuvenated Catholic thinking for an entire generation. Amintore Fanfani, a student of Giuseppe Toniolo who worked closely with Pope Pius XI, characterized what he called "Weber's far-reaching hypothesis" as "ill formulated."⁷ According to Fanfani's analysis, "Weber's solution is unacceptable . . . because it does not admit that the capitalist spirit existed before the Protestant idea of vocation."⁸

"Is it possible," Fanfani wonders, "for the essence of the thing—and for Weber the capitalist spirit constitutes the essence of capitalism—to come into existence long after the thing itself?" Weber's thesis ignores the capitalistic "facts" which had been established long before Protestantism came into existence, and, Fanfani continues:

if we admit that they could not be capitalistic unless they were produced by the capitalistic spirit, we must conclude that the capitalist spirit existed before Protestantism. If we reason logically from the data with which Weber supplies us, we cannot fail to reach this conclusion. Therefore, we cannot accept the idea of vocation as the origin of the capitalist spirit, or else we must say that it existed at an earlier time Weber's explanation is therefore inadequate.⁹

The real origin of capitalism was not England in the 17th century but Italy in the 14th and 15th centuries. The new, "capitalistic" mentality appeared at a point further back in time—between the 14th and 15th centuries—in regions such as Tuscany, Lombardy, and Flanders. This mentality, according to Fanfani, "guided the late medieval economy of the merchants and their first clever and unscrupulous entrepreneurs and traders; a mentality which Weber had identified as occurring much later in regions chiefly influenced by Protestantism."²⁰ As the editors of the I H S edition of Fanfani's book point out:

In substance, Capitalism was born, at least as a mentality if not a fully developed economic structure, in the merchant world of Florence, Flanders, and the Hanseatic ports, particularly in the 14th century, as a secularized form of that

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Christian activism that aimed to transform the world.²¹

The chief hindrance to the cloth merchants' attempt to transform the world was the Church's prohibition against usury. It took six weeks on the average for a shipment of wool to travel from Bruges to Florence and the same amount of time for finished cloth to make the same trip. Rather than send pieces of gold back and forth to pay for the wool which got purchased in England or in payment for the cloth that got sold in Bruges, the Italian merchants transferred the money via bills of exchange, thereby creating credit. Since every bill of exchange involved a change in currency, the figures involved were never straightforward. As the trade became more complicated, division of labor occurred and some of the wool merchants became financiers or bankers, and some of the bills of exchange began to tack on fees that seemed suspiciously like interest, which is oftentimes exactly what they were. Bogus contracts known as "dry exchanges" would get written up simply to justify taking interest on a loan. The complexities of international finance were further complicated by the fact that at the very moment when moral discernment was needed the most, the Italian bankers began flirting with pagan ideas that were the antithesis of the Christian notions of just price and just wage. The flowering of that flirtation came to be known as the Renaissance, and its capital was Florence, the city of Flowers. Botticelli, financed by what was left of the Medici fortune derived from usury, gave us the iconic representation of that degenerative transformation when he painted his *Primavera*.

It wasn't virtuous Puritans who gave us capitalism; it was decadent Catholics. Fanfani "saw in this very same spirit not a development but an inversion, almost a degeneration, of the ethics of the gospel" which entailed "the weakening of influence of the social conception proposed and supported by medieval Catholicism."²² That and not Protestantism "is the circumstance which explains the manifestation and growth of the capitalistic spirit in a Catholic world."²³ Capitalism came about because of "the growing distance, especially of the entrepreneurial and mercantile classes, from Catholic ethics. . . . The decrease in influence exercised by the church, following the breakup of Christendom incident to the birth of Protestantism, had ultimately accelerated a process which, nevertheless, was not born of the Reformation, but had its origins further back in time."²⁴

Contemplating this historical background leads Fanfani to his most fundamental conclusion, and the premise upon which he builds his economic theory, namely, that the Catholic ethos is intrinsically anti-capitalistic because Catholicism

places other criteria above the economic that is the adversary of capitalism. . . . Catholic theology and philosophy posit a religious criterion as the supreme rationalizing principle of life, even in its economic aspects, and again Catholic

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philosophy subordinates economic rationalization to political rationalization in that it relates the material well-being of the individual to the material well being of his neighbor and subordinates purely economic well-being to individual and social well-being in the widest sense of the word.²⁵

As Fanfani says at another point in the same book, "there is an unbridgeable gap between the Catholic and the capitalistic conception of life."²⁶ The reason for this unbridgeable gap is the moral law. Catholicism sees all purposeful human activity as governed by the moral law. Economics is nothing if not purposeful human activity; therefore, economic activity, if it is to be beneficial to the economy as a whole and therefore truly economic, must be governed by the moral law. The opposite of economic activity in the true sense of the word is activity which benefits the few at the expense of the many. The quintessential expression of this form of anti-economic activity is usury, which inexorably brings about not general prosperity in line with the common good but the concentration of wealth into fewer and fewer hands. Capitalism is state-sponsored usury.

The economic conflict between labor and usury found expression in the conflict between the Catholic and Jewish worldviews which Shakespeare described in *The Merchant of Venice*, a play which is set, not coincidentally, in late medieval Italy where capitalism as the rationalization of usury first reared its ugly head. Catholics from the time of St. Benedict's monastic reform of the usury-corrupted ancient world up to Pope John Paul II's encyclical *Laborem Exercens*—which is to say, to the present day—have always understood, at least implicitly, that labor was the source of all value. Shylock, as the quintessential representative of the Jewish world view, has no need of human labor because his ducats can copulate faster than Laban's ewes and rams.

By the time of the Italian Renaissance, the Christian world had become so habituated to usury that Shylock can insist on what Medievals like St. Antonino of Florence or St. Bernardine of Siena would have considered the scandalous enforcement of an usurious contract, in this instance one that specifies that he can exact a pound of flesh if the Christian defaults on his loan. Portia needs to resort to a clever legal maneuver to save Antonio's life, indicating how decadent the culture of the Italian Renaissance (or, more to the point, post-Reformation England) had become. Moral decay led to acceptance of usury (and sodomy) and when Italian usury began to drain gold from Germany, the princes there found in a monk's protest the pretext they needed to steal the Church property which they had coveted for centuries. Within a generation virtually every country in northern Europe would follow the German princes' example.

Because it had been conceived in the twin sins of sexual decadence and theft, capitalism was necessarily predicated on the exclusion of moral con-

siderations from the field of economic endeavor. Once the English turned their minds to justifying their theft of Church property, capitalism took on religious airs until the arrival of Isaac Newton, whereupon it purported to be a science similar to physics or mathematics as a way of diverting the attention of “smatterers” away from capitalism’s essence, which involves cutting economics off from its roots in moral philosophy by claiming that it was a science, based not the vagaries of human choice but mathematical description of physical motion.

Because it is based on human choice, economics is inexorably bound up with ethics. Ethical considerations are built into its grammar, both in the form of the institutional constraints on individual action which it presupposes, but also in the model of individual conduct—of profit-seeking and the absence of any true altruism—on which it is founded. Furthermore, the telos of economic policies and even legal-economic regimes is based on a conception of what is good for society. In these ways, morality is as intimately related to economics as mathematics is to physics. This is precisely the link which the ideology of capitalism suppresses.

Fanfani’s critique exposed the “new sanctity” of the Weber thesis as ultimately little more than a rationalization which lends moral credibility to behavior that was hitherto considered sinful. But the repression of economic reality and moral reality which Weber’s appropriation of religion attempts never quite succeeds. The repressed always returns. The more Novak tries to explain the “new sanctity” of Capitalism, the more the repressed returns unbidden to his explanation, as when Novak claims that:

the notion that the sustained application of practical intelligence to economic activities could open up new and unprecedented horizons awaited the capitalist spirit. Weber distinguishes the spirit of sustained incremental effort from adventure, piracy, luck, a windfall.²⁷

Novak mentions piracy repeatedly.

The new capitalism is not a matter of adventure or piracy but of continuous enterprise, planned and organized, evaluated for profit and loss. Without the invention of double-entry bookkeeping, without mathematical sophistication, without the techniques of analysis made possible by modern science, continuous calculation would not be possible.²⁸

Novak gives the impression that only the English genius could come up with something this advanced. The English, however, had virtually nothing to do with the invention of the economic advances upon which capitalism was based. Double-entry book-keeping was invented by the Italians, as were bills of exchange, and fractional reserve banking. So much for Latin incapacity when it comes to economic science.

The English, on the other hand, were notorious promoters of piracy. This fact finds its way inadvertently into the best exposition of the Weber

thesis in the English-speaking world, R. H. Tawney's *Religion and the Rise of Capitalism*. Tawney writes: "Weber, in a celebrated essay, expounded the thesis that Calvinism in its English version was the parent of capitalism." According to Weber, "religious radicalism . . . went hand in hand with an economic radicalism."²⁹

One of the first critiques of Weber's thesis noticed the connection between the Puritans and the Jews. In his 1907 book *Jews and Modern Capitalism*, Werner Sombart points out that everything Weber said about Puritans was *a fortiori* true of Jews. If Sombart's earlier book on capitalism caused Weber to write his articles on the Puritan spirit, those articles led Sombart to write his book on the Jews. "In fact," Sombart writes, "Max Weber's researches are responsible for this book. I have already mentioned that Max Weber's study of the importance of Puritanism for the capitalistic system was the impetus that sent me to consider the importance of the Jew, especially as I felt that the dominating ideas of Puritanism which were so powerful in capitalism were more perfectly developed in Judaism, and were also of a much earlier date."³⁰ Having read Weber's thesis, Sombart wonders:

whether all that Weber ascribes to Puritanism might not with equal justice be referred to Judaism, and probably in a greater degree; nay, it might well be suggested that that which is called Puritanism is really Judaism.³¹

According to Sombart, Puritanism is nothing more than an aberrant form of Judaism:

In both will be found the preponderance of religion interests, the idea of divine rewards and punishments, asceticism within the world, the close relationship between religion and business, the arithmetical conception of sin, and, above all, the rationalization of life.³²

Sombart was hardly the first one to notice the connection. He cites Heinrich Heine who asked: "Are not the Protestant Scots Hebrews, with their Biblical names, their Jerusalem, their pharisaical cant? And is not their religion a Judaism which allows you to eat pork?"³³ Or as one Calvinist put it: "If I am to say on my honour why I am become a Calvinist, I shall have to confess that the one and only reason which persuaded me was that among all the religions, I could find nothing which agreed so much with Judaism and its view of life and faith."³⁴

Writing 60 years before Werner Sombart attempted to correct the Weber Thesis by claiming that Capitalism was Jewish, Karl Marx wrote in *Zur Judenfrage* that the worldly cult of the Jew was huckstering and his worldly god, money, and that the most Jewish country on the face of the earth was New England because of the Puritans who settled there:

the devout and politically free inhabitant of New England is a kind of Laocoon

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who makes not the least effort to escape from the serpents which are crushing him. Mammon is his idol, which he adores not only with his lips but with the whole force of his body and mind. In his view the world is no more than a Stock Exchange, and he is convinced that he has no other destiny here below than to become richer than his neighbour. Trade has seized upon all his thoughts, and he has no other recreation than to exchange objects. When he travels, he carries, so to speak, his goods and his counter on his back and talks only of interest and profit.³⁵

Marx too emphasizes the practical sphere of life, specifically commerce, as the area in which Jewish values have most influenced their nominally Christian imitators and admirers, the Puritans. Money, not theology, is the true ecumenical *lingua franca*:

Money is the jealous god of Israel, beside which no other god may exist. Money abases all the gods of mankind and changes them into commodities. Money is the universal and self-sufficient value of all things. It has, therefore, deprived the whole world, both the human world and nature, of their own proper value. Money is the alienated essence of man's work and existence; this essence dominates him and he worships it The god of the Jews has been secularized and has become the god of this world. The bill of exchange is the real god of the Jew. His god is only an illusory bill of exchange.³⁶

As Tawney showed *malgré lui*, there is no difference on the theoretical level between the Puritan Divine and the Catholic Schoolman when it comes to the relationship between morality and economics. On the practical level, however, the opposite was true. If we ask what the Jew and the Puritan have in common on the practical level, the answer is Capitalism, not theology.

Marx, like William Cobbett whom he admired, felt that Capitalism began with the looting of the Catholic monasteries. In breaking with Catholicism, English Christianity became Jewish because by benefiting financially from the looting of the monasteries, the Anglican Church accepted Mammon as its god. This is what Marx meant when he said that the Christianity which "issued from Judaism . . . has now been re-absorbed into Judaism."³⁷ The same Christianity which Marx characterized as "the sublime thought of Judaism"³⁸ became Judaism, which is to say, the worship of Mammon, once its *raison d'être* became the rationalization of looting.

At the beginning of the Christian era, the Christian was a "theorizing Jew." He achieved this state by choosing the quest for heaven over the quest for money. Any Christian, on the other hand, who asserts the hegemony of mammon over morals, becomes a "practical Christian," which another word for a Jew. Or as Marx puts it: "The Jew is the practical Christian. And the practical Christian has become a Jew again."³⁹ As soon as he subordinated morals to economic considerations, which is to say as soon as he

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began to worship Mammon, the true god of the Jews, the Christian became a Capitalist, which is to say, a Jew, and Christianity became a form of Judaism, henceforth known as Calvinism or the Geist of Protestantism. Framed in these terms, Marx's formulation covers both sides of the English Civil War, the Anglicans (who benefited from the looting when they became the state Church and the owners of stolen property) as well as the Puritans. The common ground which both came to share in the wake of the Glorious Revolution, when Roundhead and Cavalier joined together for the first time as "Protestants," was Capitalism, which is the worship of the Jewish god, money.

Sombart's reading of Weber sounds like a continuation of Marx's treatise on the Jews. According to both men, the Geist of Capitalism is Jewish. "The Jewish outlook," according to Sombart, is "modern." All these activities are summed up in the word "capitalism."⁴⁰ Sombart substantiates Pesch's claim that modern capitalism is state sponsored usury when he claims that money-lending, the quintessential Jewish occupation, "contains the root idea of capitalism."⁴¹ Like Marx, Sombart felt that "the Jewish religion has the same leading ideas as Capitalism."⁴² "Rationalism is the characteristic trait of Judaism as of Capitalism."⁴³ Capitalism, like the usury upon which it is based, is, as Sombart puts it, "contrary to . . . Nature": Before capitalism could develop, "the natural man had to be changed out of all recognition, and a rationalistically minded mechanism introduced in his stead."⁴⁴

The rise of Capitalism in Christian Europe meant that the businessman would become more and more "Jewish" in his dealings with fellow Christians. The pious Jew was forbidden to take interest on money lent to fellow Jews, but he was "not oppressed by the burden of the anti-usury prohibition which weighed upon the Christian" when it came to lending to non-Jews. Before long the permission turned to a form of encouragement, that quickly degenerated into a Talmudic culture of cheating in which the Jew was praised for his usurious dealings with Christians. The Jew "took delight in cheating and overreaching."⁴⁵

As this attitude spread among Christian businessmen and combined with the undeniable fact that the looters in England belonged to the aristocracy, class conflict began to emerge among the English, where Jewish concepts like the "*goyim*," were applied to the those who were not part of the Calvinist Elect. In the aftermath of the Glorious Revolution, when, as Marx put it, "Locke supplanted Habakkuk,"⁴⁶ economics supplanted theology, and the reprobate "*goyim*" were redefined as the proletariat or the lower orders or the source of human labor, in short as the people whom it was permitted to cheat. By the time Marx arrived in England, class conflict was an inextricable part of the capitalist system.

Similarly, the concept of the just price was not unknown among Jews,

but it only applied to fellow Jews. In the Jews' relations with the *goyim* the price became what ever the Jew could extort. This distinction would have far-reaching consequences. As Sombart points out, over the course of the centuries Jewish standards of commerce became more and more the norm throughout Europe. Christian merchants began acting more and more like Jews, and gradually those methods began to supplant the commercial dealings that were based on Catholic moral theology. With the rise of Capitalism, the Christian who aspired to treat every man as his brother in Christ was more and more supplanted by the Capitalist who treated the customer in the same way that the Jew treated the *goyim* in his business dealings with him. The Christians who were most likely to succeed in commerce became those most willing to act like Jews, as the success of the Lombards as pawn-brokers in Bruges proved.

Like Yuri Slezkine, Sombart felt that "the Jewish outlook was the 'modern' outlook." As a result "the Jews have been champions of the cause of individual liberty. They resisted regulation, supported free trade, free competition, and advanced economic rationalism.... The Jewish religion and capitalism contain the same spirit. Both are alien artificial elements in the midst of a natural, created world. Both are creations of the intellect."⁴⁷

Unlike Weber's theory of the origin of Capitalism, Sombart's thesis actually corresponds to the historical progress of Capitalism. Sombart claims that "economic activity follows the wanderings of Jews as they passed from the nations of southern to those of northwest Europe. Holland, England, and France became significant economic actors from the first appearance of the Spanish Jewish emigres in those countries."⁴⁸ According to Sombart the Capitalist ball began rolling with the expulsion of the Jews from Spain:

One of the most important facts in the growth of modern economic life is the removal of the center of economic activity from the nations of Southern Europe—the Italians, Spaniards and Portuguese, with whom must also be reckoned some South German lands—to those of the Northwest—the Dutch, the French, the English and the North Germans. The epoch-making event in the process was Holland's sudden rise to prosperity, and this was the impetus for the development of the economic possibilities of France and England.⁴⁹

Many Jews from the Iberian peninsula ended up in the Spanish Netherlands, and as a result Antwerp became the most significant entrepot linking the Atlantic trade in gold and silver, the Spice trade from the East Indies, the Mediterranean trade from the South and the Hanseatic cities of the Baltic. Given Antwerp's link to all of these markets as well as to the river trade in Germany, commerce took a quantum leap forward, and given the role that Jews recently expelled from Spain (in collaboration with English Protestants and Dutch Calvinists) played in defining how that commerce would be conducted, it is not surprising that Capitalism would

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become ipso facto inimical to Catholic interests and the moral law as well.

Sombart, like Marx before him, felt that the United States was destined to become the pre-eminent Capitalist country because of the circumstances surrounding its colonization and birth as a nation. Foremost among them was "Jewish access to newly discovered gold and silver in the countries of Central and South America," which "facilitated their role in international trade in luxury goods." As a result, "the United States are filled to the brim with the Jewish spirit,"⁵⁰ according to Sombart.

After deconstructing Weber's claim, Sombart proposes his own myth concerning the origin of capitalism. Modern Europe was created by a confluence of two groups: Germans rooted in the soil, and Jews who were wandering herdsmen. According to Sombart,

The capitalistic civilization of our age is the fruit of the union between the Jews, a Southern people pushing into the North, and the Northern tribes, indigenous there. The Jews contributed an extraordinary capacity for commerce, and the Northern peoples, above all the Germans, an equally remarkable ability for technical inventions.⁵¹

The main premise upon which the German half of Sombart's origins thesis rests is the claim that "From the very first [our ancestors, i.e., the Germans] . . . seemed to be rooted in the soil."⁵² This means that Germans, who live in cool forests, are closer to nature ("Man is brought into closer touch with Nature in the North than in the hot countries.") than the Jews, who "have received their peculiar impress from the thousands of years of wandering in the wilderness."⁵³

The German genius, in other words, brought forth the "feudal manorial system," a system tied to the soil:

from the soil which the ploughshare turns up arose that economic organization of society which was dominant in Europe before Capitalism came—the feudal, manorial system, resting on the ideas that production should be only for consumption, that every man should have a niche to work in and that every society should have differences in status. The peasant's holding, strictly marked off as it was from his neighbor's, gave prominence to the idea of each man's limited sphere of activities, of "the estate to which it had pleased God to call him" there he was to remain and work in the traditional way.⁵⁴

This system finds its antithesis in Jewish Capitalism: "From the endless wastes of sand, from the pastoral pursuits, springs the opposite way of life—Capitalism."⁵⁵ According to Sombart:

Their constant concern with money distracted the attention of the Jews from a qualitative, natural view of life to a quantitative abstract conception. The Jews fathomed all the secrets that lay hid in money, and found out its magic powers. They became the lords of money, and, through it, lords of the world.⁵⁶

As with Max Weber, whose book he criticizes, Werner Sombart runs

into trouble when he tries to formulate a theory which can explain the origins of Capitalism. To begin with, the German half of Sombart's foundational myth flies in the face of historical reality. The Germans were not bound to the soil, certainly not "from the very first" as Sombart claims. In fact, the rise of German hegemony over European culture, as symbolized by the Holy Roman Empire, began with the exact opposite of attachment to the soil. It began with something the Germans term the "*Voelkerwanderung*," i.e., with the wandering of the German tribes beginning in earnest around the Fourth Century. When the Goths settled on the southern bank of the Danube and defeated the Roman legions in the battle of Adrianople in 378, the stage was set for centuries of looting and pillaging as these barbaric and largely Germanic hordes swept over what was left of the Roman empire and remade Europe in their image.

The Lombards (or Langobards) are a typical example of one of the wandering Germanic tribes who changed the face of Europe after the fall of Rome by looting and plundering. After subduing the local population, the Lombards exacted tribute so that they could engage in things they considered important, namely, hunting, warring, and raising pigs. The Germanic invasion would have significant consequences for the economic development of Italy, and once northern Italy became Europe's premier power in banking and finance, their development would have significant consequences for all of Europe, and once Europe founded its colonies in the New World, consequences for the entire world as well.

The Lombard conquest of Italy began when the entire Lombard nation (200,000 strong) was driven out of their most recent home in Pannonia on the Danube by the Mongols. Following the route already established by the Roman legions, the Lombards crossed the Julian Alps into Italy in 568 "and soon overran Venetia and the valley of the Po as far west as Milan."³⁷

In the aftermath of the invasion, the conquered "Romans" had two choices. They could remain on the land, in which case they became slaves of the Lombards. This peasant class supplied the material needs of the Lombard elites because "The main activity of most free Lombards was warfare and hunting; their land they left to be worked by the dependent population."³⁸ A new Germanic aristocratic culture replaced its Roman predecessor, and "Their principal activity was hunting and the breeding of swine and other animals most easily adapted to forest life."³⁹

By the middle of the seventh century, the Lombards controlled a land area four-times larger than Byzantine Italy, but "the Lombards . . . were practically cut off from all maritime activity and even neglected to use their two ports of Genoa and Pisa."⁴⁰ The "Greeks," on the other hand, controlled all of the coastal districts, all of the ports, and therefore all of the commerce of what was the former Roman Empire in the West. Commerce

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continued in Italy during the "dark ages," largely because of the ports of Byzantine Italy, all of which "maintained perpetual contacts with Constantinople and the eastern Mediterranean, which at that time were economically the most vigorous and enterprising part of the world."⁶¹

Those who chose not to serve the new Germanic masters left the land and took up residence in the complex of islands that made up the delta of the Po and Adige Rivers, which came to be known as Venice. Venice retained its identity as an outpost of the Roman empire largely through its navy, which facilitated trade with Constantinople, the capital of the Eastern Empire which remained untouched by Germanic invasions. Culture in Italy, as a result, took on a dual Germanic-Greco-Roman character. Tilling the soil according to the system of the feudal, manorial economy characterized the Germanic, Langobardian interior of Italy, while commerce with the Greeks, which engendered a money economy, characterized the cities along the coast. Eventually, during the course of the Middle Ages, these two Italies, along with their different economic systems, would come in conflict with each other, and it would be up to the Catholic Church to adjudicate their differences and decide which economic advances were compatible with a Christian social order and which were not.

The final element which contributed to the development of economic life in post-Imperial Christian Italy was the Catholic Church, in particular the large ecclesiastical estates which were first managed in a systematic way by the monastic orders: "The man most responsible for this was St. Benedict (480-543) who in his famous Rule, compiled about 534 for the abbey on Monte Cassino, provided a model for the economic practice of all the Benedictine houses subsequently founded throughout Italy and western Europe."⁶² Gradually under the influence of Benedictine monks, who in addition to the traditional vows of chastity, poverty, and obedience, took a vow of stability binding them to one place, animal husbandry and agriculture took the place of the hunting and looting, which had been the basis of aristocratic Langobardic culture.

Sombart got it wrong, when he ascribed to the Germans some mystical connection to the soil. The Germanic connection to the soil came not from the culture of wandering German tribes but from the Catholic Church in general and the vow of stability taken by Benedictine monks in particular. They tried for 1,000 years to civilize and Christianize the Germanic barbarian looters who constituted the ruling class in Europe.

Economic development in Italy took place in a cultural matrix composed of these three competing forces. Gradually, the forests and swamps of the Po Valley, where the Lombards did their hunting, were cleared and drained under the tutelage of the Benedictines, and the surplus food which this land produced helped feed the commerce-oriented population of cities

like Venice, Florence and Milan, which could then engage in increasingly far-flung and sophisticated trading with Byzantium and the Levant on the one hand and Flanders and England on the other. This increasingly lucrative trade, especially after the added impetus of the Crusades, led, in turn, to increased economic development, which led to the need for increasingly sophisticated financial instruments to keep track of and facilitate even more complex forms of commerce. As increased economic activity led to increased wealth and increased wealth to increased power, conflicts arose between the stable feudal culture of the land and the money culture of commerce that was slowly replacing it as centers of northern Italian commerce like Florence, Lucca, Siena and Milan rose to prominence alongside Venice. "In the Middle Ages it was the international trade ventures that did most to favor the rise of the capitalist spirit."⁶³

Trade flourished in spite of ecclesial skepticism and downright disapproval. St. Thomas Aquinas felt that trade destroyed culture: "For," the angelic doctor wrote,

the city that for its subsistence has need of much merchandise must necessarily submit to the presence of foreigners. Now relations with foreigners, as Aristotle says in his Politics, very often corrupt national customs: the foreigners who have been brought up under other laws and customs, in many cases act otherwise than is the use of the citizens, who, led by their example, imitate them and so bring disturbance into social life. Moreover, if the citizens themselves engage in commerce, they open the way to many vices. For since the aim of merchants is wholly one of gain, greed takes root in the heart of the citizens, by which everything in the city, becomes venal, and with the disappearance of good faith, the way is open to fraud; the general good is despised, and each man will seek his own particular advantage; the taste for virtue will be lost when the honor which is normally the reward of virtue is accorded to all. Hence in such a city civil life cannot fail to grow corrupt.⁶⁴

By the end of the 15th century, it looked as if Aquinas's prediction had come true for the city-states of northern Italy, where "competition had become intense, and beyond what was allowed by law" and no longer "mitigated by aspirations towards a society based on brotherly unity."⁶⁵ This is certainly the case if we take the sermons of the Mendicant preachers as an accurate picture of what is going on. Instead of embodying the Catholic ideal, Italy was becoming a place where: "no one feels shame if he acts in a capitalistic manner. The younger men, swept along by the current, drag the old ones with them. Capitalists seek to break down the barriers that civil and ecclesiastical legislation set on their action."⁶⁶

The Church, as the guardian of Italian culture, could not remain aloof as this conflict developed. Because there was no science of economics at the time and because the Church had always evaluated commerce from the point of view of moral philosophy, the Church's evaluation of the social

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benefit of the new economic advances crystallized around a discussion of usury, which meant not just exorbitant interest on a loan but any sharp business practice in which one party took advantage of another. For almost a century, from the end of the 14th to the end of the 15th century, popular Mendicant preachers like San Bernardino of Siena and St. John Capistran condemned the usury that was grinding the middle and lower classes of the rising Italian city-states into dust. The Mendicants combated usury both theoretically by their preaching and practically by founding *monti di pietà*, local credit unions that took care of small-scale consumer credit in time of need.

The Schoolmen were grappling with the various facets of economic life and trying to discern if the changing nature of financial dealings created a situation in which the lending of money at interest might not constitute a sin against justice or charity. In order to do this they had to distinguish between the various financial instruments. Bills of exchange, which because of the seven- to eight-week time lag between when they were issued at, say, Florence and when they were redeemed in Bruges (and vice versa), necessarily involved credit and payment of interest, usually disguised in one form or another. This practice seemed different from the point of view of charity and justice than pawnbroking of the sort practiced by Jews and Lombards, where the industry average was 43 1/3 percent a year (and often double that amount) and security for the loan was often the craftsman's tools, which meant he had no means of earning a livelihood while saddled with usurious debt.

Unlike bills of exchange, pawnbroking, by the nature of the terms on which it was carried out, necessitated financial ruin for those unfortunate enough to fall into the hands of the usurers. By the time the Mendicants had taken to preaching against them for acting like Jews, the Lombards had turned from the looting and pillaging that had given them hegemony over the Po valley to a more sophisticated financial version of the same predatory behavior. As a result of developments like this, the unprecedented advances of economic life in northern Italy had precipitated a struggle between a political ruling class whose Germanic roots in looting and plundering had been sublimated but not eradicated and a Church which felt that all economic activity had to be subordinated to the exigencies of the moral law.

The other factor which came into play during the 15th century in Italy was the desire to return to paganism, otherwise known as the Renaissance or, to give the name whereby its literary arm was known (especially north of the Alps), humanism.

As in England in the wake of the Glorious Revolution, the banking elites needed to rationalize behavior which the Church had deemed im-

moral. In England the Whig party paid people like John Locke to come up with an ideology which rationalized English ruling class praxis. In Italy, that rationalization followed from the translation of ancient texts, particularly those involving Jewish and Neoplatonic magic:

The greatest contribution to the new economic spirit informing 15th century men was brought by the humanist conception of life, . . . which . . . took the most significant step towards the capitalist spirit by detaching their conception of wealth from its moral setting, and withdrawing the acquisition and use of goods from the influence of the rules and restrictions of religious morality. . . . The State ceased to oppose the new mode of thought and life, and instead itself threw off the influence of Catholic ideals, often in order to exploit human vices, as we see in legislation on gambling. . . . All these reasons explain the fact that the birth . . . of the capitalist spirit took place in a Catholic world.⁶⁷

Humanism sought the same thing in Italy that the Whig ideology sought in England, namely the release of the "economic action of the citizens . . . from the subjection to religious principles."⁶⁸ Capitalism, in other words, preceded the Reformation; the correct correlation is not with Protestantism, but with a regressive and virtually degenerate form of Catholicism. The "capitalist spirit" was not born in a Protestant area . . . but rather it appeared first in Catholic countries; and that it was not an essential result of the Reformation, but rather it developed as a result of the progressive decomposition of the original Catholic ethic."⁶⁹

Beginning with the Hussite rebellion in 1419, Europe witnessed a concerted effort to throw off the yoke of Catholicism and return to a more primitive social order. For the Hussites, this meant a return to a quasi-Hebrew theocracy based on the appropriation of models from the Old Testament. For the Italians it meant a return to the paganism that they could extract, not from the Old Testament, but from newly rediscovered "ancient" texts like the Cabala and the writings of Hermes Trismegistos. The common denominator for those texts was magic, and as I pointed out in *The Jewish Revolutionary Spirit*, Johannes Reuchlin made contact with that magic when he met the Medici agents Ficino and Pico della Mirandola in the 1480s. Reuchlin then took the tradition of Jewish magic north of the Alps, where it brought about a fracture in Christendom which has yet to be healed. Through this fracture, the spirit of Capitalism leaked into the world.

Humanism in Italy, not Protestantism in England, was the matrix which gave birth to capitalism. "The capitalist spirit," according to Fanfani,

has always existed in man in an embryonic state; which, opposed and held in check by Catholicism, became a social force when, in the 15th century, Catholicism declined; and which was encouraged by humanism inasmuch as humanism weakened Catholic ties. . . . The capitalist spirit began by showing itself in the single act of a man who felt, momentarily, that he need not confine his activity

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within the limits prescribed by revealed morality.⁷⁰

Capitalism was born from the desire “of detaching earthly happiness from any higher destiny. This means to banish saints and moralists, agonies and ecstasies. Such was the work that humanistic skepticism began, and the positive teaching of Protestantism completed.”⁷¹ Capitalism was not the creation of pious English Puritans, rather it was “a manifestation of that general revolution of thought that characterized the period of the Renaissance” and which gave birth to the Reformation.

The new Protestant ruling class in England and the northern and eastern German principalities was composed of Germanic barbarians, like the Lombards in Italy, who reverted to type, i.e., to looting, as soon as the vigilance of Church discipline was broken by the Protestant Revolt. In England, Fanfani tells us:

The revolutionary changes entailed by heresy following on schism led to confiscation of church property, sale of lands, speculation, a re-shifting of classes, an influx from lower to higher state of society and the advent of new plutocrats, new land-owners, new rulers. . . . Confiscation encouraged speculation and a revival of the enclosure movement, which legal prohibitions were impotent to check.⁷²

Capitalism is another word for Catholic decadence of the sort epitomized by the papacy under Alexander VI. It was born out of Catholic vice not Puritan virtue. The Medicis understood that the return to paganism had economic benefits for those in the banking sector. The concept of a “just price” was a Christian innovation. In the ancient world the just price and the just wage were non-existent. The price was what buyer and seller agreed upon, the economic equivalent of might make right. The wage, when it wasn’t subsistence under slavery, was what employer and employee agreed upon. This meant that the powerful got to impose their will on the weak with no interference. The Medicis and their supporters the Palleschi found pagan life attractive. Although not formulated in terms of a return to antiquity, this state of economic affairs was also the ideal envisioned by the nascent Capitalists who collaborated with Henry VIII in the looting of Church property in England.

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Chapter Ninety-Four

Marriner Eccles and the American Reaction

The Federal Reserve System had been discredited by the Crash of '29. Two years later in September 1931, the gold standard would suffer a similar fate when England suspended convertibility and abandoned gold as the basis for their currency. In the intellectual vacuum which followed, government was forced to act. After Herbert Hoover's departure from the White House on March 4, 1933, Franklin Delano Roosevelt embarked upon his "Hundred Days" economic recovery program:

The banking system had money pumped into it; bank deposits were guaranteed and the Stock Exchange regulated; the gold standard was suspended, internally and externally; a national scheme of unemployment relief was set up; acts were passed to refinance agricultural and housing mortgages. The president was advised to inflate the currency; The Tennessee Valley Authority became America's first experiment in state socialism; organized efforts to raise wages and prices and plan (or restrict) production were authorized in the Agricultural Adjustment and the National Industrial and Recovery acts.¹

As one of his first acts in office, Roosevelt took a page from Wagner's *Rheingold* and, imitating Alberich, he confiscated the nation's gold. On April 5, 1933, Roosevelt issued Executive Order 6012 "forbidding the hoarding of gold coin, gold bullion, and gold certificates within the continental United States." Executive Order 6102 required all persons to deliver on or before May 1, 1933, all but a small amount of gold coin, gold bullion, and gold certificates owned by them to the Federal Reserve in exchange for \$20.67. Roosevelt then raised the price of gold to \$35 per ounce and with this windfall, he shored up the sagging dollar and inflated the currency in order to get the economy unstuck.

Two weeks after Franklin Delano Roosevelt took office as president of the United States, Hjalmar Schacht returned to power on March 17, 1933 when he became head of the Reichsbank once more, this time at Hitler's request. Both Roosevelt and Schacht were faced with the intimidating task of rebuilding their respective economies in the aftermath of the twin financial collapses of 1929 and 1931. Hjalmar Schacht's task was complicated this time around by the fact that there was no Dawes Plan waiting in the wings as the financial *deus ex machina*, nor was Montagu Norman in a position to lend him \$200 million pounds in gold backed sterling to set up a bank. Schacht got the German economy moving again more effectively than the

New Deal recovery, which Roosevelt managed by fits and starts in America. Unlike Roosevelt, who felt that the dollar had to be based on stolen gold, Schacht launched his recovery based entirely on the strength of German labor and its relationship to the government. This time around, "there wasn't a gram of gold to back the Nazi bills."² Schacht revived the Germany economy with German money, just as Faust had done for the Emperor, with no foreign loans and no gold backing. At the height of the recovery in 1936, "gold reserves officially amounted to 1 percent of the note circulation."³ The other 99 percent of the currency was backed by nothing more than the labor of the German people and the guarantee of the sovereign, and in the eyes of the people that was enough to ensure that what circulated was real money. Cut off from international money, i.e., gold, Schacht created the Nazi economic miracle by creating his own money, based on the authority of the state and the productivity of human labor, concepts which did not exist in the world of Anglo-American finance.

Once everyone had been assured that the power of the state would support labor until it was able to create something of value with the credit that was the basis of a fiat currency, the money became "real," which is to say accepted by the population at large. Schacht had pulled off the magic trick that Goethe had fantasized about in *Faust*, and he did it by implementing the essentially German notions of economy which Fichte had articulated in *Der Geschlossene Handelstaat*.

In 1933, isolation from the world economy was imposed from without, but the result was the same. Gold was now unnecessary; all that was needed was a pact between German labor and the government. "Through the so-called process of 'work creation,'" the recovery happened virtually overnight. By September a triumphant Hitler was filmed breaking ground for the first stretch of what would become the nation-wide Autobahn network.⁵ Unlike the Quantitative Easing which the Fed inaugurated after the crash of 2008, part of the money which Schacht created out of the pact between German labor and the German government went directly into the economy in the form of wages on Government projects like the Autobahn. Part of it was used to settle debt.⁶ The result was nothing less than spectacular:

The advent of Nazism coincided with a veritable jubilee: the record shows the virtual annulment of all private debt. Like magic, money became less expensive. At the beginning of 1933, the prime rate of interest was over 8 percent; by 1935 . . . Schacht compressed it to 2.81 percent. Germany was liquid again.⁷

Between 1933 and 1936 German GNP increased by an average annual rate of 9.5 percent and national productivity for industry and crafts rose by 17.2 percent. The annual growth of public consumption during these four years was 18.7 percent, while private consumption increased only by 3.6 percent annually.⁸

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Speculation was no longer possible because, although the monied classes had collected interest during the Nazi boom, they could not retrieve their capital until the successful outcome of the war in the East.⁹

The recovery in America was nowhere near as dramatic as in Germany because America was still hampered intellectually by the shackles of obsolete ideas like the gold standard, even though England had just repudiated convertibility after years of conniving with the Fed. The collapse of the gold standard, however, ensured that Keynes's ideas would move from the fringe of economic thought to the mainstream.

Schacht and Keynes would each meet with Roosevelt, with mixed results. On May 9, 1934, Keynes and his wife sailed for New York, where Keynes was scheduled to receive an honorary doctorate from Columbia University. During that trip Keynes met with the financial and political elite of the nation and gained a first-hand view of how they were coping with the Depression. During lunch with automobile magnates Alfred Sloan, president of General Motors, and Walter Chrysler, Keynes found "much pessimism prevalent because costs [were] increasing faster than incomes and fear [of] inflation causes hoarding of money."¹⁰ The culmination of his trip came on May 28, when he sat down with President Roosevelt for an hour-long meeting at the White House. Skidelsky claims that, "No one knows what they talked about."¹¹

In "Open Letter to the President" that was published in the *New York Times* on 31 December of the previous year, Keynes had pinned his hopes on Roosevelt's New Deal, claiming, "If you fail, rational change will be gravely prejudiced throughout the world, leaving orthodoxy and revolution to fight it out."¹² Keynes here was advocating the American Liberal via media, so beloved of that Paladin of the WASP ruling class, Paul Blanchard, who felt that America faced a war on two fronts: Catholic Fascism on the Right and Russian Bolshevism on the Left. The choice seemed obvious to everyone in the WASP elite, except Franklin Roosevelt, who "refused to come down decisively in favor of Keynes's ideas"¹³ and chose political considerations instead, which, after the initial successes of the first 100 days would plague the New Deal's economic recovery program with indecision and lack of results all the way up to America's entry into World War II. Hitler's economic recovery plan was the only New Deal that actually succeeded in eliminating unemployment. Roosevelt's certainly didn't. There were 15 million Americans out of work when he took office in March 1933. There were still 11 million four years later and the economy properly recovered only with rearmament and the war. The reason was that budget deficits remained far too small to plug the shortfall in private investment.

Schacht's meeting with Roosevelt was shorter and more to the point. When Schacht, full of trepidation, told Roosevelt that the Reichsbank might

have to suspend interest payments on American loans, he was relieved to hear Roosevelt responded by saying with a laugh and a resounding slap on his thigh, "Serves the Wall Street bankers right!"⁷⁴ With the exception of Andrew Jackson, it is hard to imagine any other US president expressing similar feelings about Wall Street bankers.

Roosevelt's response to Schacht was more than a diplomatic gesture. He was determined to do something about Wall Street, and the man who put these feelings into action was Marriner Eccles, whom Roosevelt appointed as head of the Fed in 1934.

Eccles was a Mormon Republican banker from Utah who had first-hand experience with bank runs when his depositors demanded their money during one of America's recurrent liquidity crises. By reassuring his customers that they could withdraw their money and having his tellers count very slowly, Eccles had averted what by then had become a common disaster in American life. Drawing on his own experience as a banker, Eccles concluded that "mass production has to be accompanied by mass consumption."⁷⁵ After the collapse of 1929, someone had to get the money moving again, and the only someone big enough to accomplish this was the federal government. As a result, the government needed to "borrow the idle capital held by the few and put it in the hands of the many. . . people who would spend it. The government would do this simply by purchasing more things itself. . . or by sending out benefit checks to eligible recipients—veterans, the unemployed, the elderly."⁷⁶

After testifying to this effect before Congress in early 1933, Eccles was asked by Roosevelt to become the new head of the Federal Reserve System, an organization whose reputation had been ruined by the ruin of the national economy which had taken place on its watch. Eccles single-handedly restored the reputation of the Fed by implementing principles which were the antithesis of the usury-friendly policies which had motivated Benjamin Strong during the first 14 years of its existence and which would return to motivate Paul Volcker during the Fed's neo-Capitalist, monetarist period beginning in 1979. The principles which Eccles implemented would later be known as "Keynesian economics," even though "Eccles articulated these new ideas at least three years before John Maynard Keynes would publish his *General Theory*."⁷⁷ Eccles repudiation of the usury associated with classical economics was so successful that "the Federal Reserve, on its 70th anniversary, would rename its marble building on Constitution Avenue in honor" of the man "who rescued it from disgrace."⁷⁸ After Eccles took over, the Fed became "the center of Keynesian evangelism in Washington."⁷⁹

Contemporaneous with Eccles' appointment as head of the Fed, the New Deal initiated reforms which restored public confidence in the banking system. The first was federal insurance of bank deposits, which with

one bold stroke removed the recurrent plague of panic and collapse from American economic life.²⁰ The creation of the FDIC was followed shortly by the Glass-Steagall Act of 1933 which effectively split the banking industry in half, forcing the bankers to choose between "the short-term lending of commercial banking and the long-term capital raised by investment banks through the issue of stocks and bonds."²¹

In 1935 the Fed, under Eccles' leadership, inaugurated its "countercyclical" policies, which meant that the Fed "stimulated the economy in recession and restrained it when an expansion threatened to become an inflationary bubble," a clear violation of neoclassical principles, which invariably encouraged liquidation during a downturn, thereby exacerbating the problems caused by recession by encouraging deflation. William McChesney Martin, who would continue Eccles' "Keynesian" policies as his successor, characterized the Fed's role as "leaning against the wind,"²² or more famously, claimed that the Fed's role was to "take away the punch bowl just when the party gets going."²³

Unfortunately, old habits die slowly. After a series of initial moves in the right direction, the Roosevelt administration capitulated to political pressure, and, like the dog mentioned by the psalmist, returned to the vomit of classical economics when it prevailed over Eccles in 1937 to tighten fiscal policy in conjunction with the administration's decision to balance the federal budget. The result was predictable. All of the tentative moves in the direction of economic recovery that began with the hundred days were stopped dead in their tracks; millions were thrown out of work, and the country once again slid back into the Depression it had been struggling to leave behind.

Keynes's magnum opus, *The General Theory of Employment, Interest, and Money*, appeared in February 1936, one year before the Recession of 1937 was to catapult Keynesian economics to its position as the regnant economic orthodoxy of the free world, a position it would hold for the next 40 years. "It was this second recession of 1937 that finally and completely discredited the old orthodoxy of balanced-budget economics. It also confirmed the political hegemony of Keynesian doctrine."²⁴ The recession of 1937 served as vindication of everything Keynes had said about deficits in time of economic contraction and marked the beginning of the Keynesian era in economic history. Balanced budgets, no matter how essential they were to individual households, "could do real harm to the economy." Both the Roosevelt Administration and Marriner Eccles had to learn the hard way, in the expensive school of experience, that "the only thing wrong with the New Deal's deficits was that they had not been large enough to get the job done."²⁵ Keynesian economics would rule over the economic world until 1979, when it expired because of its own unresolved contradictions

and was replaced by Milton Friedman's monetarism as the new economic orthodoxy. But Eccles learned his lesson in 1937. He never tightened the money supply again for the rest of his tenure as head of the Fed. "The 1937 action was the last error of the Federal Reserve for a long time," according to Harvard economist John Kenneth Galbraith, "because it was the last action of any moment for 15 years."²⁶

Classical economics had expired along with the gold standard in 1931. Keynes described it in his earlier *Tract on Monetary Reform* as a "barbarous relic," something guaranteed to amuse his blasphemous Bloomsbury co-belligerents in their war against Victorian pieties.²⁷ The gold standard that the United States pretended to continue after England withdrew from the fray was "dead as mutton." The Gold Standard, according to Keynes:

perished, and perished justly, as soon as the Federal Reserve Board began to ignore its ratio and to accept gold without allowing it to exert its full influence [on the price level] merely because an expansion of credit and prices seemed at that moment to be undesirable. From that day, gold was demonetized by almost the last country which still continued to do it lip service, and a dollar standard was set up on the pedestal of the Golden Calf. For the past two years, the United States has pretended to maintain a gold standard. In fact, it has established a dollar standard, and, instead of ensuring that the value of the dollar shall conform to that of gold, it makes provision, at great expense, that the value of gold shall conform to that of the dollar.²⁸

Keynes liberated the economy from its golden shackles. Once it had become apparent to everyone that the gold standard had been discredited, it became equally apparent that there was no "self-regulating mechanism" left to run the economy. That meant that human beings had to run it themselves because "economic health was too important to be left to laissez-faire. Economic management, which had already started, must become part of the modern science of government, not the tool of vested interests."²⁹

The Gold Standard claimed to make management of the economy unnecessary, when in fact it had made effective management of the economy impossible. When Keynes was asked how his managed currency would avoid the danger of inflation, his answer was "by the exercise of responsible intelligence."³⁰ Keynes's answer was correct of course, even if he was unaware of the full ramifications of what he said. Responsible intelligence could have been construed as a reference to practical reason, and it was in the Kantian, Enlightenment sense of the term, but it had an essentially ethnocentric meaning to Keynes. As Sir Roy Harrod pointed out: "Keynes . . . deemed England a sufficiently mature country for it to be possible to assume that the authorities . . . would not indulge in an orgy of feckless note issue."³¹ Responsible intelligence, in other words, was another way of saying "English." Because it had relied on the pseudo-mechanism of the gold standard for so long, capitalism "had no relevant philosophy of government to

put up against its critics" until "Keynes provided it with one."³² "Keynes alone," we are told,

provided an intellectually coherent justification for a certain type of government intervention, one which would save, not destroy, both capitalism and liberal democracy. We have put this theory into operation and have lived by it for the last 30 years. Before Keynes, most "advanced" thinkers believed that some system of authoritarian planning, usually modeled on Russia, was the only answer to the economic problem. Keynes provided an alternative model.³³

Skidelsky overstates his case. Keynes's refutation of laissez-faire and the gold standard showed the need for intervention but not how to intervene effectively because that would have required a more finely calibrated sense of practical reason than Keynes had at his disposal.

The gold standard as the paradigm of Newtonian, self-regulating capitalism meant nothing if not the exclusion of moral considerations from the field of economic endeavor. With the gold standard as its paradigm and method of implementation, classical economics purported to be a science similar to physics or mathematics, as a way of covering over capitalism's essence, which is the banishment of morality from a science which is inexorably based, not on physical motion, but on the vagaries of human choice. Because it is based on human choice, economics is inexorably bound up with ethics. In addition to providing the grammar of economic discourse, morality provides the necessary telos for economics by articulating the hierarchy of goods which is essential to any rational choice. Morality is as intimately related to economics as mathematics is to physics, but this is precisely the link which the ideology of Capitalism suppresses. To give an analogy, Capitalism is to economics what Darwinism (the late 19th form of Capitalist ideology) is to biology. Capitalism is not an expression of economic thought; it is an ideological deformation of economic thought.

Blinded by his own ethnocentric prejudices Keynes, the immoralist, was unaware that the philosophy he inherited from G. E. Moore as a Cambridge undergraduate and later member of the Apostles and Bloomsbury group contradicted the theoretical foundation of his economic system. Keynes failed to see that "the exercise of responsible intelligence"³⁴ is another word for following the moral law, the same moral law which he repudiated as a follower of the "higher sodomy" and all of the other pernicious ideas he picked up from the decadent English culture of his day. The situation was further complicated by Keynes's membership in the ruling class elite and the baleful effects of moral corruption that swept through that class during the early years of the 20th century, all of which can be epitomized by the term "Bloomsbury."

Keynes prided himself on being an immoralist. He described his youthful deconversion in a short memoir entitled "My Early Beliefs," which

appeared in 1938, when he stood at the pinnacle of his fame. In that memoir, Keynes attributed his immoralism to reading G. E. Moore's *Principia Ethica* while an undergraduate at Cambridge in 1903. Moore was a Victorian who philosophized in the tradition of the Scottish Enlightenment, which was always looking for a way to accommodate morality to a Capitalist world order by turning the moral law into a series of "sentiments" or, as in the case of Moore, states of mind. Keynes and his generation, which included Lytton Strachey and other devotees of the "Higher Sodomy," accepted Moorism as a religion, "so to speak," which meant that they "discarded his morals," and put in their place "certain states of consciousness, which may be roughly described as the pleasures of human intercourse and the enjoyment of beautiful objects."³⁵ The result of this release from conscience based on objective moral norms rooted in practical reason was "exciting, exhilarating, the beginning of a new renaissance, the opening of a new heaven on a new earth, we were the forerunners of a new dispensation, we were not afraid of anything." But no matter how appealing it was to the troubled conscience of adolescents, Keynes came to realize later in life that "It was hardly a state of mind which a grown-up person in his senses could sustain literally."³⁶

Nor could it provide the basis for regulating an economy or preventing the over-issue of notes that invariably led to inflation once the gold standard had passed into the rubbish bin of history. As in his discussions with the Treasury at a later date, Keynes relied on ethnic solidarity to make up for what he lacked in moral principle as a guide to life:

Keynes' "personalized anthropomorphic" view of life was formed against a backdrop of rules, conventions, institutions, wealth-creating mechanisms, political philosophies, which were taken for granted. The partial transfer of such a view to the public realm required the pulverizing effect on creeds and morals of the First World War.³⁷

Keynes felt that moral principle was unnecessary—at least among Englishmen of his class—because the human race (or at least the English part of it that congregated in the salons of Bloomsbury):

consists of reliable, rational, decent people influenced by truth and objective standards who can safely be released from the outward constraints of conventions and traditional standards and inflexible rules of conduct, and left from now onward to their own sensible devices, pure motives and reliable intuitions of the good. The view that human nature is reasonable had in 1903 quite a long history behind it. It underlay the ethics of self-interest of . . . Kant and Bentham.

...³⁸

And it would perish in the trenches of Passchendale—for the Lost Generation and for Keynes, too, if we read between the lines of his memoir. Keynes was nothing if not ambivalent about the immoralism that was the

project of the Bloomsbury generation. The snobbery which he acquired as a student of Moore and member of The Apostles, the Cambridge equivalent of Skull and Bones, allowed him to ridicule "all versions of the doctrine of original sin, of their being insane and irrational springs of wickedness in most men," but at least by 1938 it didn't prevent Keynes from seeing that:

We were not aware that civilization was a thin and precarious crust erected by the personality and will of a very few, and only maintained by rules and conventions skillfully put across and guilefully preserved. We had no respect for traditional wisdom or the restraints of custom. We lacked reverence. . . . It did not occur to us to respect the extraordinary accomplishments of our predecessors in the ordering of life . . . or the elaborate framework they had devised to protect this order.³⁹

The net result of the Bloomsbury homosexual undergraduate rebellion against the moral order was not liberation but befuddlement. In the end, Keynes had to conclude that "We completely misunderstood human nature, including our own." The Bloomsburies ended up like intellectual "waterspiders, gracefully skimming the surface of a stream without any contact at all with the eddies and currents underneath . . . ignoring both the reality and the value of the vulgar passions."⁴⁰

Since no rational creature can totally ignore the moral law and still remain rational, Keynes could not perdure in his immoralism if he wanted to make his mark in the world of economics. One sign of his movement away from the homosexual fantasies of his youth was his marriage to Lydia Lopkova, which earned him the enmity of homosexuals like Duncan Grant and Virginia Woolf. Keynes's marriage and having to deal with the real world of the gold standard and the miners' strike had a fatal effect on Moore's states of consciousness, which burst like the intellectual soap bubbles that they were upon contact with reality. Rationality kept intruding, forcing Keynes to become an economic moralist *malgré lui*, as when he attacked usury and the "sanctity" of contracts in his *Tract on Monetary Reform*:

For nothing can preserve the integrity of contract between individuals except a discretionary authority of the state to revise what has become intolerable. The powers of uninterrupted usury are too great. If the accretions of vested interest were to grow without mitigation for many generations, half the population would be no better than slaves to the other half. . . . The absolutists of contract . . . are the real parents of revolution.⁴¹

Catholic Social teaching was compatible with Keynes' rejection of *laissez-faire* economics and the "self-regulating" gold standard because by 1931 *Rerum Novarum*, as Pius XI had put it in *Quadragesimo Anno*, had already "completely" overthrown "those tottering tenets of liberalism which had long hampered effective interference by the government."⁴² But it was not

compatible with Keynes' immoralism. By the time he wrote his memoir in 1938, Keynes was wise enough to view his early infatuation with Moore with mordant irony, but he could never bring himself to disavow it. More importantly, he could never come up with a system of beliefs that could fill the moral and intellectual vacuum that Moore's philosophy in combination with Strachey's Higher Sodomy had created.

As a result he could never come up with the moral framework necessary to run an economy once the "self-regulating" gold standard had been debunked as a pious economic hoax. In an essay entitled "Economic Possibilities for our Grandchildren," first delivered as a talk to the Essay Society at Winchester College on 17 March 1928,⁴³ Keynes complained that the "rentier bourgeoisie" had sacrificed the "arts of enjoyment" to "compound interest" and wondered if there was "any escape from the dilemma that economic progress seemed to depend on motives condemned as immoral by religion and neurotic by psychology."

His answer was that, no, there was in fact no escape from economic vice. As a result: "Avarice and usury and precaution must be our goods for a little longer still. For only they can lead us out of the tunnel of economic necessity into the day light."⁴⁴ "Our goods"? The fact that Keynes unconsciously identified here with the rentier class he had just criticized shows both his myopic ethnocentrism and the primitive state of the moral philosophy of the man who undeniably reintroduced moral thinking into the economic thought of his generation. In his postmortem, Skidelsky blames the demise of Keynesianism on the fact that:

Keynes overestimated the possibility of rational economic management by democratic government. Hayek thought Keynesian government would be too strong for democratic health. It turned out to be too weak—too much penetrated by, dependent on, or at the mercy of outside forces to be able to make its economic will prevail.⁴⁵

The answer is much simpler than that. Keynes didn't overestimate the power of government, he underestimated the role which practical reason must necessarily play in both politics and economics. Skidelsky claims that "Keynes changed his theory to suit his morals,"⁴⁶ when it should be obvious that the opposite was the case. His economic theory ultimately failed because it lacked any grounding in moral principle sophisticated enough to enable its practitioners to manage an economy. In the end, consumption disconnected from the moral order would result in incurable inflation. Keynes rescued the economies of the West from the deflation that flowed inexorably from the gold standard, but his immoralism prevented him from proposing a calculus for the money supply that was sophisticated enough to save the economy from its new nemesis, inflation, and that is the rock upon which Keynesian economics eventually ran aground.

If Keynesiansism worked for a while that is because there was a certain morality programmed into civilized life that functioned automatically if left alone. But since Keynesianism was perceived as a form of social engineering, justifying more and more intrusive forms of the same thing, it was a sure bet that people were not going to be left alone to run their lives according to the dictates of the moral law. Energized by its victory over fascism, the WASP ruling class returned from World War II determined to put the techniques they learned in service of their twin crusades against Communism and Catholicism. The result, on the domestic front, was urban renewal, which destroyed the fabric of parish life,⁴⁷ and the WASP birth control campaign, which destroyed the morals of the Baby Boomer generation.⁴⁸

Keynesianism worked as long as it could depend on the moral law which it held in contempt, a situation which persisted during its golden age, 1948-1963, which also happened to coincide, not coincidentally, with the baby boom. If "the economic consequences of World War II were . . . extraordinarily bountiful for America," it was because the money which got borrowed to fund the war got invested wisely, which is to say, in expanding the nation's manufacturing infrastructure, which is to say, in labor rather than usury, which is where it ended up during the 1920s after World War I:

To meet the necessities of war, the government in effect, force-fed the rapid development of new productive facilities across many industrial sectors. These would become the basic industries of America's postwar prosperity—electronics, petrochemical synthetics, aircraft frames and engines, shipbuilding, steel and nuclear power, among others. The new industrial base created by WWII was the platform that launched America's global hegemony.⁴⁹

As a result of this investment, the nation's output increased by more than 75 percent. Thanks in large part to the rehabilitation of labor that *Quadragesimo Anno* brought about and the energizing effect it had on largely Catholic blue collar unions, much of the wealth which flowed from wartime borrowing got channeled into the pockets of the workers as higher wages. In this the '50s differed radically from the 1920s, when wages and agricultural prices were artificially suppressed and the money that resulted from increased productivity went into sterile stock market speculation instead. In the crucial period 1948-1963 which corresponded with both the baby boom and the apogee of Keynesian influence over the economy, the workers who benefited from high wages invested those wages in their children, which spread the money around rather than concentrating it in the pockets of the usurers, creating a demographic surge that increased general prosperity. This is not how the rentier class saw things, of course. They saw overpopulation, fueled by Catholic fertility instead; The successful launch of the WASP birth control pill in 1964, followed by the Jewish crusade for

abortion which reached its culmination in 1973, put an end to that period of prosperity by channeling money into mindless "consumption," which lacked any economic *telos*, creating the stagflation of the '70s, which led to the totalitarian reaction of Friedman's monetarism in 1979.

Keynes, like the WASP elite which embraced his economic theories in the post war period, was a notorious promoter of birth control, and it was on the rock of moral inconsistency that his economic theories ran aground. As part of the agenda of Liberalism he listed, "Birth control and the use of contraceptives, marriage laws, the treatment of sexual offences and abnormalities, the economic position of women, the economic position of the family . . . drug questions."⁵⁰ The quintessential creed of the WASP technocrat, as epitomized by Kinsey's sex histories of the late '40s and early '50s, was "we have technology; morality is unnecessary." Keynesian economics became an enabler for this dangerous illusion, if for no other reason than because it paved the way for an even more pernicious reaction, the return of classical economics:

Keynes's anti-market, anti-democratic bias was driven by a belief in scientific expertise and personal disinterestedness which now seems alarmingly naïve. This runs throughout his work and is the important assumption of his political philosophy.⁵¹

In the end Keynesian economics ran aground on the essentially homosexual credo implicit in its most famous maxim: "In the long run we are all dead." It was defeated by the homosexual immoralism of Bloomsbury, which contradicted the essentially transgenerational nature of a healthy economy in favor of the enjoyment of fleeting states of consciousness. It opened the way to the hedonism of the 1960s, which the masters of usury used to befuddle the work force and once again cheat them out of the fruits of their labor. Once the working class had been tricked into accepting health care plans providing birth control pills instead of increased wages, the way had been paved for the return of triumphant usury under the guise of combating inflation. As early as 1949, clever undergraduates like Paul Volcker knew that "something had to give." In his senior thesis, he explained that "Either monetary discipline must be restored or the United States would face continuous inflation."⁵² Thirty years later, after the sexual revolution had wrought its "creative destruction" on the moral fabric of American culture, Volcker would get his chance to impose "monetary discipline" on an unsuspecting nation, one which has yet to recover from what he did.

Marriner Eccles and the American Reaction

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Chapter Ninety-Five

The Age of Friedman

The Bretton Woods conference took place at the Mount Washington Hotel in New Hampshire, one month after the D-Day invasion, when the outcome of the war was a foregone conclusion and the victors were interested in creating an economic system which would avoid the mistakes which followed World War I. The meeting turned out to be a battle between Harry Dexter White, the head of the American delegation and a closet Communist, and John Maynard Keynes, head of the British delegation and the free world's foremost economist. No matter who won the individual battles over issues like the future of the Bank of International Settlements, which White and the Roosevelt Administration wanted to dismantle, Keynes won the economic war. Two years before his death, his ideas of demand management and monetary reform liberating the economy from the shackles of the gold standard had taken over the management of the most powerful economy in the world. The principles of laissez-faire economics had been completely discredited in the aftermath of the Crash of 1929 and the Depression which followed. Keynes had thoroughly debunked the idea that the gold standard could run an economy.

Once the gold standard had been relegated to the dustbin of history, the vacuum it left behind was filled by "an enlightened and public-spirited technocracy" which would "manage" the economy by promoting the twin Keynesian desiderata of "full employment and consumption as opposed to stability and saving."¹ Needless to say, this transformation could not be the end of the story. Everyone admitted that there was no such thing as a self-regulating mechanism any more and that the economy needed to be managed, but no one was willing or able to define the criteria by which it should be managed, primarily because these criteria had to be moral criteria, and there was no consensus on what these criteria were, or whether, in fact, universal moral principles existed at all. Because Keynes was a self-described "immoralist," he could provide no help in distinguishing between good and bad forms of consumption.

As a result, the Keynesians, bereft of any sophisticated understanding of the moral law, simply reverted to type and did what the Newtonians did when faced with a similar crisis in the 18th century. They endorsed "science" as the universal *lingua franca* which made moral criteria unnecessary. Keynes, like Toto in *The Wizard of Oz*, had pulled back the curtain and showed how the self-regulating mechanism of the gold standard was noth-

ing more than a front for the self-interest of the creditor, the quintessential man behind the curtain. Instead of reforming the monetary system by introducing new and universal, which is to say moral, criteria as the basis for running the economy, the Keynesians removed the gold standard Wizard of Oz and replaced him with the technocrat in his white lab coat—who, again, with Newton as his model—purported to direct the economy according to scientific principles, without telling us what those criteria were, and whether they were really scientific (or just an excuse for social engineering), and how they were supposed to fill the moral vacuum that was always the Achilles heel of the capitalist system. Empiricism can posit no good, neither intermediate nor final, and the fact that an economy needed a good as its *telos* to guide the managers in their management got swept aside in the burst of enthusiasm which surrounded the new method's early successes. This lack of philosophical *telos*—the inability, for example to say which forms of consumption were productive and which were not—which Keynes derided as unnecessary among civilized people, would ultimately lead to the downfall of Keynesian economics, in spite of all of its undeniable successes.

Like many Englishmen of his generation—especially the devotees of the Bloomsbury cult—Keynes attacked the morals of the Victorians but tacitly accepted their mores. Keynes “described the transition from gold as a historic liberation for the world’s economies,”² but he could never break with the values of the rentier class. In fact the life of the rentier, which he and Bloomsbury lived, epitomized his vision of the future, a time when “man will be faced with his real, his permanent problem—how to use his freedom from pressing economic cares, how to occupy his leisure, which science *and compound interest* will have won for him to live wisely and agreeably and well (my emphasis).”³ The world which Keynes predicted for the grandchildren he never had is precisely the world we got—an ever smaller rentier class accumulating ever larger concentrations of wealth according to the inexorable logic of compound interest—but it was most probably not the world he intended because his immoralism in combination with his ethnocentrism blinded him to the pernicious nature of usury. Keynes understood that once the gold standard was abandoned money needed to be managed. What he didn’t understand is that the criterion of management is the moral law.

The Latin phrase *Quis custodiet ipsos custodes?* applied to managers every bit as much as it applied to watchmen. Once the market needed managers, the criteria of management became more important than ever, but in an age of technocratic managers in white lab coats who spurned metaphysical discussion, those questions never got answered. When President Eisenhower was asked what consumers should buy during the recession of

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1957-8 to get the economy moving again, his answer was, "Anything."³ The Keynesian emphasis on consumption no matter what, in other words, led to a series of problems as soon as traditional consumption patterns—i.e., those based on the needs of family life—gave way to artificially created patterns based on advertising and social engineering, which is to say by the mid-'70s when "stagflation" became the new spectre haunting both Europe and America. The ensuing pollution of the environment, which led to the birth of the ecology movement by way of reaction, was only one manifestation of the fact that consumption unmoored from morals was causing problems.

The idea that consumption of "anything" should become the *summum bonum* of the Keynesian economy led to other problems as well. Control of the money supply proved to be a temptation too powerful for politicians to resist, just as the goldbugs had been saying all along. But that was hardly the whole story. Once the power of the Keynesian economic levers became apparent to all, society's powerful players did whatever it took to get their hands on them. As David P. Calleo put it, just "as the state has tried to take over the market, so interest groups have tried to take over the state."⁵ Keynes was no socialist, but the same cannot be said of his followers, who incorporated more and more of the activity which rightfully belonged to the market into their social engineering schemes. As a result, they quickly became overwhelmed at the magnitude of the task before them. In a system which had been based for centuries on balancing competing interests, suddenly there was no natural balance. As markets got suppressed, economics became "politicized" and the net result was not just persistent inflation, but a new strain of inflation known as "stagflation," which was resistant to all of the financial antibiotics that had been used to treat it in the past.⁶ And it was on the rock of stagflation that the Keynesian system would eventually run aground.

On the afternoon of Friday, August 13, 1971 President Richard Nixon met with a group of economic advisers at Camp David and decided to close the gold window. Fearing that inflation would be the immediate result of removing the gold teather from the dollar, Nixon instituted wage and price controls two days later. These policies set the stage for stagflation by the end of the decade. The term had been coined in 1965 by Ian Macleod, a British politician who became chancellor of the exchequer in 1970. Traditionally, high employment correlated to low interest rates, and both were regarded as mutually exclusive, as described by the Phillips curve. But as the '70s proceeded, the economies of advanced countries like the United States began to exhibit both of the formerly mutually exclusive characteristics at the same time. Most economists would claim that stagflation proceeded from a combination of bad economic policy (Nixon's wage/price freeze) and sup-

ply shock of the sort that occurred following the OPEC oil boycott in 1973. But Keynesian monetary policy played a role as well.

Keynes's supporters try to shift the blame from the master himself to "The real culprits," who, according to Jeffrey Barraclough, "were the bright boys on the banks of the Charles River, who reduced Keynesian economics to a bag of tools, available to any graduate of the Harvard Business School or MIT, among which they could pick and choose at will."⁷ The result was "a brew of Keynes and Adam Smith" that displeased "even the brewers. It was a mixture of incompatible elements that was bound in the end to blow up in the alchemists' faces."⁸

The result was what we might call "Vulgar Keynesianism," which is to say, the notion that "any consumption which maintained aggregate demand at a level at which resources would be fully employed was good."⁹ The fifteen years between 1948 and 1963 were a time of unparalleled growth, and commitment to growth and full employment, and the realization that government could influence both, were a major factor in this growth. This commitment had its root in Keynes's thought, but perhaps because of his childless marriage and early homosexual behavior, Keynes had no understanding that the *telos* of consumption could be found in the reproduction of society which took place in family life, where the future was born anew with each child that came into existence. Keynes was not interested in the long run, which was intimately bound up with procreation. He was "more concerned with the size than with the nature of spending, and perhaps in the 1930s, sheer spending was good enough. By the end of the 1960s, after a spending spree unparalleled in history, it was not." By the middle of the 1970s, Galbraith's affluent society was "cluttered up, beyond the point of no return with non-essentials."¹⁰ There was insufficient demand during the gold standard era because of the deliberate deflation of the money supply, but the opposite was the case by the end of the Keynesian era, when demand had been artificially stimulated and misdirected by both advertising and social engineering.

This, in rough outline, was the route by which the American economy reached the destination called "stagflation" by the mid-1970s. The enemies of labor blame it on full employment, because low unemployment led to high wages and high wages stoked "the fires of cost-push inflation."¹¹ This is akin to blaming lung cancer on breathing. To continue the analogy, the cure for the cancerous growth in prices known as inflation was the economic equivalent of asphyxiation. Paul Volcker applied chemotherapy to the economy in 1980 just as Benjamin Strong had in 1920, in the hope that the inflation would die before the economy did.

Keynes diagnosis of the problem was more accurate than the complaints of his detractors, but neither he nor his followers could grasp the complex

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moral alchemy which led to stagflation. The main source of confidence in the inflationary boom and the borrowing which sustained it was the birth control pill, which gave the illusion of doubled household income while relieving those same households of the expenditures necessary to provide for children. This gave the liberated birth-control pill households of the 1970s the confidence to speculate on property markets in a way that would have terrified their parents' generation. The pill gave the baby boomer generation, which was just forming families, the confidence to sustain greater debt and pay for houses and/or rent. Unfortunately, the baby boomers didn't understand that the main reason the ruling class sponsored birth control was to drive down wages, something they accomplished by doubling the work force when women worked outside the home. The crucial change came in 1973, nine years after 1964, which *Time* magazine had dubbed the "Year of the Pill." Nineteen Seventy-three was the year of abortion; it was also the year in which real wages began to decline, but no one was able to make the connection between the two events. It was also the year in which the credit card became a substitute for rising wages. Credit kept the economy going over the short haul, but compound interest insured that it would strangle it in the long run. "The outstanding faults of the economic society in which we live," Keynes wrote in the *General Theory*, "are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income."² The truth of that statement is not compromised by the fact that Keynes "never bent his mind seriously to the question of what production should be for."³ The answer to that question lay in the principles of practical reason, which are inaccessible to a self-described "immoralist."

This moral and philosophical failure had far-reaching economic implications: "The result was a gross misallocation of resources, compared with which the pyramids were a childish prank. Never before in the history of the world have the world's perishable resources been used up so quickly and to such little purpose"⁴ as during the later phase of the Keynesian era. The result of this philosophical miscalculation was a "perversion of Keynes's ideas," one which "taught that the only way to keep the economy ticking over was to consume as much as possible, preferably of things of no durable value."⁵ This miscalculation could have been corrected, but instead it was used as an excuse to throw the baby out with the bath water when the apologists for classical economics returned to power.

The Mont Pelerin Society was founded on April 10, 1947 by a group of economists, historians and philosophers, which included Austrian School economist Friedrich Hayek and University of Chicago economist Milton Friedman, with the express purpose of combating the "state ascendancy and Marxist or Keynesian planning [then] sweeping the globe."⁶ Friedman attended the Mont Pelerin conference as Hayek's protégé; it was the first

time he had been out of the United States. When he returned to Chicago, Friedman was instrumental in creating the Chicago School of economics, a school which “revived the study of monetary economics, which had become moribund . . . used the quantity theory . . . to launch a power attack on the Keynesian school,” and “presented strong defenses of laissez-faire policies” combined with “important new policy proposals.”¹⁷

Since its creation the Mont Pelerin society has spawned a number of think tanks, primarily in the UK and the US, dedicated to promoting the tenets of classical or Manchester School liberalism. Those think tanks include the Heritage Foundation, founded in Washington in 1973; the Manhattan Institute for Policy Research, founded in New York in 1977, and the Atlas Economic Research Foundation, founded in 1981.

The libertarians who came out of the Mont Pelerin Society were united in their hatred of the state but divided on monetary issues. The savants of the Austrian School were gold bugs to a man, but Milton Friedman was not. In his early book *Capitalism and Freedom*, Friedman arrived at a superficially cogent understanding of the Crash of 1929 based on monetarist principles. He attacked the Keynesian system at what he perceived as its Achilles heel, namely, the Federal Reserve System, by insisting, quite rightly, that the Fed was an agency of the Federal government, without specifying that, with a few notable exceptions, it has always been run on laissez faire principles and was most certainly run on those principles when the market crashed in 1929.

Friedman began his argument by claiming that the Keynesian principles of “full employment” and “economic growth” were bogus and mendacious because they were nothing more than “excuses for widening the extent of government intervention in economic affairs.”¹⁸ According to the Keynesians:

A private free-enterprise economy. . . is inherently unstable. Left to itself, it will produce recurrent cycles of boom and bust. The government must therefore step in to keep things on an even keel. These arguments were particularly potent during and after the Great Depression of the 1930s and were a major element giving rise to the New Deal in this country and comparable extensions of government intervention in others.¹⁹

Since the Fed was “the governmentally established agency” in charge of the economy at the time, according to Friedman, government was responsible for the Great Depression:

the Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy. A governmentally established agency—the Federal Reserve System—had been assigned responsibility for monetary policy. In 1930 and 1931, it exercised this responsibility so ineptly as to convert what otherwise would

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have been a moderate contraction into a major catastrophe. Similarly today, governmental measures constitute the major impediments to economic growth in the United States. Tariffs and other restrictions on international trade, high tax burdens and a complex and inequitable tax structure, regulatory commissions, government price and wage fixing, and a host of other measures give individuals an incentive to misuse and misdirect resources and distort the investment of new savings. What we urgently need, for both economic stability and growth, is a reduction of government intervention not an increase.²⁰

Friedman failed to mention that the Fed of 1930 and 1931, had a different operating system than the Fed in Friedman's day. In 1930, the Fed was a oxymoron, at least in Libertarian terms, because it was a government agency which operated under *laissez-faire* principles. When the crisis came, the Fed either did nothing or it did exactly the opposite of what needed to be done to bring about economic recovery. The Fed failed to act in 1930-31, not because it lacked the power, but because it felt that interference in the economy, even when the economy had collapsed, was akin to sacrilege. The real villain in this story wasn't government; it was the same *laissez-faire* principles which Friedman and Hayek tried to resurrect with the founding of the Mont Pelerin Society.

Warning against the dangers posed by "the Scylla" of "the belief that a purely automatic gold standard is both feasible and desirable and would resolve all the problems of fostering economic cooperation among individuals and nations in a stable environment" and "the Charybdis" of believing that "the need to adapt to unforeseen circumstances requires the assignment of wide discretionary powers to a group of technicians, gathered together in an 'independent' central bank, or some bureaucratic body,"²¹ Friedman came up with his own solution to the monetary problem: "The Reserve System shall see to it that the total stock of money so defined rises month by month, and indeed so far as possible day by day, at an annual rate of X percent, where X is some number between 3 and 5."²²

Unlike most proposals suggested by academics, Friedman's proposal was actually put into practice, with disastrous results, when his acolyte Paul Volcker became head of the Fed in 1979. Friedman's proposal would bring about the same disastrous results as George Harrison's did in 1930 because the same oxymoron lay at the heart of both. Unlike fellow libertarians of the Austrian School persuasion, Friedman was smart enough to see that the gold standard never really worked. But he was not smart enough to understand that the same oxymoron lay at the base of both failed attempts. Managing the money supply according to *laissez-faire* principles was a contradiction in terms. Making use of standard libertarian rhetoric, Friedman disguises this fact by blaming government, as if the term "government" needed no further explication. The argument was essentially empty, but it gained more and more force the longer the contradictions at

the heart of Keynesianism remained unresolved.

Friedman's analysis is nuanced, however, compared to the crude monetary theories of the Austrian School. Friedman's mentor Hayek recommended the abolition of legal tender laws and the creation of what amounted to private money, with no understanding that that notion too was a contradiction in terms. Hayek felt that: "This would prevent governments from distorting the economy by Keynesian cheap money policies and would be a more effective discipline than Friedman's monetary rule."²³

Libertarianism claimed to be a resurrection of classical economics, but the economic system of choice for the WASP elite in the period following World War II was Keynesianism, which carried with it a patina of *noblesse oblige*, paternalism and social engineering. Libertarianism, as manifested by both of its main expressions, the Chicago School and the Austrian School, was from its inception at the founding of the Mont Pelerin Society, as well as through later manifestations under Ayn Rand and Alan Greenspan and neoconservatism, an essentially Jewish movement. Murray Rothbard's views on money, which make Hayek's look sophisticated by comparison, are quintessentially Jewish. Rothbard sees money much as Shylock saw it, as gold coins, which could copulate through usury but could only increase in value individually if everyone else's standard of living declined.

Like Friedman, Rothbard, the founder of the Libertarian Party, demonized "government" as the *radix malorum*, an act which blinded him to any understanding of what money is. Like Hayek, Rothbard ignores the salient fact that money is a creation of the state. The prime piece of evidence for this is the coin, which has been money since the time of the Mesopotamians. Coins can be made from gold and silver, which is created by God, but coins as money are a creation of the state. Any attempt to expand the money supply to meet the needs of a growing economy had to be based on clear understanding of the nature of money, and that understanding could only be derived from money's historical development. Libertarian "medicine" is invariably worse than the economic disease that "Doctor" Rothbard offers to cure. Or as he puts it: "This prognosis can only be changed by a drastic alteration of the American world monetary system: by the return to a free market commodity such as gold and by removing the government totally from the monetary scene."

This prognosis, if implemented, would enable the usurers to practice usury with no restraint, which is what the Jewish bankers at places like Goldman Sachs did after the repeal of the Depression era Glass-Steagall Act in 1999. The results were catastrophic. No one knows how to extricate the world economy from its current position under a mountain of unrepayable debt. In his first popular book, *Capitalism and Freedom*, Milton Friedman laid out what would become the global free-market rule book, which

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in the United States would form the economic agenda of the conservative movement:

First, governments must remove all rules and regulations standing in the way of the accumulation of profits. Second, they should sell off any assets they own that corporations could be running at a profit. And third, they should dramatically cut back the funding of social programs.²⁴

It continued:

Rich and poor should be taxed at the same flat rate. Corporations should be free to sell their products anywhere in the world, and governments should make no effort to protect local industries or local ownership. All prices, including the price of labor, should be determined by the market. There should be no minimum wage. For privatization, Friedman offered up health care, the post office, education, retirement pensions, even national parks.²⁵

The Jewish usurers' Utopia which Milton Friedman promoted under the name of Chicago School economics was the mirror image of Communism, another Jewish Utopia, because both claimed that if their programs were implemented heaven on earth would follow. The main transformation needed to create the Chicago School version of heaven on earth was the transfer of infrastructure created with public funds into private hands. Friedman's goal was to expropriate the public works projects created during the Keynesian era. It was another looting operation:

The assets that Friedman urged governments to sell were the end products of the years of investment of public money and know-how that had built them and made them valuable. As far as Friedman was concerned, all this shared wealth should be transferred into private hands, on principle.²⁶

Friedman's vision "coincided precisely with the interests of large multinationals, which by nature hunger for vast new unregulated markets,"²⁷ and it received a huge boost when Dwight D. Eisenhower took office in 1953. During the 1950s, the Chicago School teamed up with the CIA to recapture the developmentalist, Keynesian economies of South America and bring them back in line with the Jewish version of classical economic theory promoted by Milton Friedman at the University of Chicago. They did this largely by corrupting Catholic education, and, where this failed, by orchestrating *coups d' état*.

The year 1953 can be seen in retrospect as a watershed year. It was the year in which the newly formed Central Intelligence Agency took over the federal government. The man at the center of that take-over was C.D. Jackson, who stood at the intersection of the CIA, media—in particular Henry Luce's Time/Life empire—and psychological warfare. Referring explicitly to the emergence of psychological warfare at the heart of federal power, Jackson claimed that 1953 "was a year in which things got unstuck."²⁸ Jackson was Luce's "private darling."²⁹ He was in charge of all "policy" questions

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when Luce was away from his desk travelling in Europe and was liberally rewarded by Luce, who gave him a considerable amount of Time, Inc. stock for his efforts. More importantly, Jackson was the crucial link between the CIA, the Eisenhower Administration, and America's unofficial propaganda ministry, *Time* magazine. According to Wemhoff:

In the person of CD Jackson, the efforts of the USA Government and the American banking and business interests came together to wage a sophisticated world-wide campaign to re-engineer societies around the globe so as to infuse the spirit of capitalism in all of the societies of free peoples ostensibly to resist Soviet Communist slavery. CD would remain active in this effort, and essential to it, up to the day he died which was September 18, 1964.

Stalin's death in 1953 put U.S. foreign policy in a bind. Eschewing another global war, this time against the Soviet Union with nuclear weapons, the United States opted for economic warfare instead. C. D. Jackson laid out the new strategy in a speech he gave to the Ohio Banker's Association in 1957:

Not so very long ago, we had a very effective ally in the person of Joseph Stalin. And I am not talking about wartime days, but the days after that. By his continuous and complete misconception of what made us tick, he was able to time after time to stimulate us into a strong and effective defensive reaction to the gross and blatant overt acts of aggression – the rape of Czechoslovakia, the Berlin Blockade, the Korean attack, to name just a few. Old Joe had an uncanny ability to wake us from our existential dreams into the reality of our danger. So long as he was alive, we could count on the Soviet Union's maintaining a monopoly on sabre rattling, leaving us a monopoly on the peaceful rebuilding of the Free World through the use of our economic might. In other words, a kind of uneasy but nevertheless working see-saw balance was maintained between visible Soviet truculence and visible US peaceful use of the dollar. Then beginning in 1954, the Soviets embarked on an infinitely more subtle game. They moved over to our side of the see-saw – the economic side. And since we were unwilling to move over to theirs, things got somewhat unbalanced. Today, that imbalance is dangerously visible to friend and foe alike

The Free World is under a greater threat than ever before. The U.S. can respond to that threat in one of three ways.... First, the United States can consider itself immune to the threat, or above the struggle. . . "Fortress America" Or, second, the United States can respond militarily and somehow find itself in a preventive war within the next two years before either Sputnik or Mutttnik can carry an atomic warhead designed to drop on the United States.... Or, third, the United States can use its economic might to bolster the free area, and by bolstering it expand it, and by expanding it undermine the Soviet area....

But in order for the US to provide this capital, either in the form of Government loans or private investment it is elementary prudence to the case of Government loans, and essential to the case of private capital investment, that the political and economic climate of the country involved shall be favorable – or at least neutral. That is the role of US diplomacy – and I am afraid a role which it has not

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yet adequately discharged ³⁰

Wemhoff then explains the ramifications of America's decision to embark on the path of economic warfare:

In addition to psychological warfare, CD's efforts were, not surprisingly, in the area of economics, particularly the development of an American world economic plan or system. If the media was the means, then economics was the reason, and CD was conversant and influential in both arenas. To that end, he also was a part of the World Trade Foundation "which intensified the movement to globalize America's international business interests," and he was a key organizer of the Bilderberg Group that first met in 1954. CD saw that "One thing that private enterprise cannot do abroad is to create a favorable climate for U.S. investment - that's a job for the U.S. Government, and it's a job that it is today honor-bound to do." Like Luce and Kennan, CD knew that consumer demands had to be increased, and the world's standard of living raised to solve the problem of stimulating demand, thereby getting American business, and hence American banking and the capitalist spirit, stretching around the globe.³¹ CD wrote that "There are two billion people on this globe, and 50% of them have a sub-marginal standard" of living, and therefore to increase that living standard by "a fraction of a percent created a demand" for production that would exceed all current capacity in the West. It was a "new frontier" that "puts all previous frontiers in the shade" in that it consisted of "pocket radios, telephones, televisions, washers-driers, cars, bluejeans, and plastics galore. New roads, new shopping centers, new communities of small pre-fabs.... Endless desire. Endless demand. Endless growth. The Americanization of the world. It was unlimited." This was to CD "the frontier of the minds, the hearts and the lives of the two billion people who inhabit the world" and "Enterprise America" meant "liberation" as well as "infinite opportunity, and unlimited psychological warfare."³²

Jackson joined the Dwight D. Eisenhower presidential campaign as a speech writer in 1952. After Eisenhower took office in 1953, Jackson was appointed to a number of important positions, most of which had to do with the burgeoning of the intelligence community under the leadership of the CIA. Jackson was close to both Allen Dulles, new head of the CIA, and John Foster Dulles, his brother and secretary of state. He was also involved in the global expansion of American capitalism, which he pursued under the aegis of the World Economic Policy which Luce advocated in *Time*. The WEP was:

was nothing more than a plan to extend throughout the world the power of the dollar as the reserve currency, and hence make all societies dependent on America's monied elites. The way that would be done would be to increase consumption around the world, build economies in foreign countries, and lower USA trade barriers. This in turn required the creation of the "right climate" in various foreign societies which meant a consumerist mindset in which the gaining and enjoyment of wealth was emphasized for its own sake. The right climate would require governmental efforts, and hence, during the course of economic planning in the 1950s, one always would see the confluence of three major dynamics

or interests: intelligence and psychological operations, banking, and the media.³³

Under Jackson's direction, the WEP would urge governments "to adopt a policy of promoting economic growth throughout the world by means of government and private loans, denominated in dollars, and investment – a program that would encourage free trade and higher living standards."³⁴ The WEP would also open a "New Front in the Cold War" that would show that the "U.S. seeks to prove that democracy and capitalism have more to offer – in terms of freedom, justice and plenty – than the Communists."³⁵ The WEP, in short, would "help the rest of the world stand on its own feet, against poverty and Communism" by increasing free world trade and raising living standards in the "underdeveloped lands of Asia, Latin America, and Africa."³⁶

After Eisenhower took office, he installed John Foster Dulles as Secretary of State and his brother Allen as head of the newly formed Central Intelligence Agency. What followed were a series of coups d'état in third world countries which aspired to pursue developmentalist policies that were neither communist nor capitalist. The nationalist government of Mohammad Mossadegh was overthrown in Iran after he nationalized Iranian oil assets, and Reza Pahlevi, otherwise known as the Shah, was put in his place, where he would be a docile occupant of the Peacock Throne, willing to serve American internationalists interests for his 26-year-reign.

The Dulles brothers then turned their attention to South America, where Keynesian developmentalist policies were having the same success that they were having in the United States, much to the chagrin of the corporate interests bent on exploiting these countries for their natural resources. When the Dulles brothers worked in the private sector it was for the New York law firm of Sullivan and Cromwell, which "represented many of the companies that had the most to lose from [Keynesian] developmentalism."³⁷ One was the United Fruit Company, and so the second *coup d'état* staged by the Dulles brothers was against Guatemala at the behest of their former client United Fruit.

The CIA then turned its gaze on the other South American countries which were operating according to Keynesian principles. In 1953 Alvin Patterson, director of the US International Cooperation Administration in Chile—the agency that would later become USAID—and Theodore W. Schultz, chairman of the Department of Economics at the University of Chicago met with the head of the University of Santiago and proposed a program that would allow Chilean students to study Friedmanite neo-liberal economics at the University of Chicago, at US taxpayer expense. Sensing, quite rightly, that significant strings were attached to this gift, the University of Santiago turned down the offer. Undaunted, Patterson then went to Chile's Catholic University, where the dean avidly accepted his pro-

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posals, giving birth in 1956 to what came to be known as “the Chile project” in Washington circles.³⁸

The Mont Pelerin Society was founded at the beginning of the post-World War II anti-Catholic crusade, which spilled over into its founding when Frank Knight rejected the title Acton-Toqueville society because both men were Catholic.³⁹ Paul Blanshard, whose articles about Catholic attitudes toward sex, birth control, and corporatism began appearing in 1947 in *The Nation*, gave voice to the regnant WASP elite’s fears that the liberal democracies of the West were now faced with the twin threats of Catholicism (or crypto-Fascism) and Communism. Eventually the WASP elite would enlist the support of Catholic intellectuals, especially among the Jesuits, to bring Catholic aspirations in line with American guidelines. The best example of this collaboration was the relationship between John Courtney Murray, S.J., and Henry Luce.

With Murray’s help, Luce articulated his vision of the future in a manifesto which appeared in 1953 entitled “The American Proposition.” An essential condition of what Luce was calling the American Century was American penetration of world markets. The main focus of Luce’s activity in the period following World War II was Italy, where he had his wife appointed American ambassador so that he could bring Fanfani’s Christian Democrat party in line with American interests by conjuring the Communist threat and enlisting the Church to fight in the State Department’s anti-Communist crusade.

Between 1957 and 1970 one hundred Chilean, presumably Catholic, students sat at Milton Friedman’s feet in Chicago and imbibed the Jewish neoliberal capitalism that the Mont Pelerin Society had been created to disseminate. Not surprisingly, when these students returned to Chile to take over the levers of economic academe, they found just about all of the Keynesian policies which the government had implemented wanting. They became a fifth column for laissez-faire, revolutionary change. The disciples were even more zealous than the master. The Chilean Chicago boys were “even more Friedmanite than Friedman himself,”⁴⁰ and when they returned to Santiago, they created an economics department at the Catholic University which mirrored their ideology. By 1963, 12 of the 13 full-time faculty member in the economics department at the Catholic University of Chile were graduates of the University of Chicago program.⁴¹

Unfortunately (from their perspective), “*los Chicago Boys*” had no impact on government policy during this time. Keynes’s developmental policies had proven wildly successful, but lacking the moral compass which could have warned them away from too much of a good thing, the political class became habituated to government as the solution to every problem. By 1970, the government was threatening to nationalize the copper mines,

then controlled by US corporations, which were the country's biggest source of revenue.⁴²

Having failed in both the actual marketplace and the marketplace of ideas, Friedmanite economists predictably, if hypocritically, then called upon the Chilean state to carry out the final phase of their anti-government, free market agenda. After Salvador Allende won the 1970 elections in Chile, Richard Nixon unleashed a campaign of economic warfare which was intended to "make the economy scream."⁴³ When that failed to bring down Allende, Nixon turned to CIA director Richard Helms, who orchestrated the military *coup d'état* which toppled the Allende government and brought General Augusto Pinochet to power. Pinochet then became a docile pawn of "los Chicago boys" and proceeded to wreck the Chilean economy.

As one of his first acts, General Pinochet named several Friedmanite University of Chicago alumni as his senior economic advisors.⁴⁴ Then with Milton Friedman as his personal tutor on economic matters, Pinochet implement the Chicago School playbook by privatizing state-owned companies and banks and tearing down the tariffs which had protected the Chilean manufacturing sector. As Friedrich List could have predicted, the cheap imports that flooded the country drove domestic factories to the wall. Pinochet then cut government spending by 10 percent, while allocating more government money for the military.

Unsurprisingly, given the economic measures it proposed, the first real-world implementation of Chicago School, neoliberal, laissez-faire economics was an unmitigated disaster. Within a year of the coup, inflation had reached 375 percent, the highest inflation rate in the world as of 1974 and twice what it was under Allende.⁴⁵ At the same time, Pinochet's free-trade policies had thrown thousands of Chilean factory workers out of work because local labor could not compete with cheap imports.

Faced with a debacle of unprecedented proportions, the devotees of the Chicago School responded in a way that was eerily similar to the way supporters of Communism justified that system's failures. As Sergio de Castro put it, "the problem didn't lie with their theory but with the fact that it wasn't being applied with sufficient strictness."⁴⁶

Faced with the failure of his academic theories in the real world, Milton Friedman flew to Santiago in March 1975 and ordered more financial chemotherapy to kill off the last cells of "government interference" in Chile's already terminally ailing economy. Friedman told Pinochet that he had to strip away the last vestiges of government influence over the economy. That meant "more cuts, more privatization, more speed."⁴⁷ If he didn't the experiment would fail. Friedman likened his role in Chile to that of a physician who offered "technical medical advice to the Chilean government to

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help end a medical plague” –the “plague of inflation.”⁴⁸

The results of “Doctor” Friedman’s financial “medicine” were predictable. The patient went from bad to worse. Buoyed up by Friedman’s prognosis, “Pinochet and [Sergio de] Castro got to work stripping away the welfare state to arrive at their pure capitalist utopia.”⁴⁹ Chile’s economy contracted by 15 percent and unemployment, which stood at 3 percent under Allende, soared to 20 percent and stayed at that level for years. Surveying the misery he had inflicted on the people of Chile, Friedman opined, “My only concern is that they push it long enough and hard enough.”⁵⁰

By 1982, strict adherence to the tenets of laissez-faire Chicago School economics had created both hyperinflation and 30 percent unemployment because the speculators, known locally as “the piranhas,” freed from all regulation, had looted the economy, buying assets and replacing equity with debt, saddling the economy with a debt of \$14 billion.

In the end, the Jewish version of capitalism had turned out to be more vicious than even the English version. Over the next three years, Milton Friedman would spread the gospel of predatory Chicago School economics to Brazil, Uruguay, and Argentina. In each of these countries, the Friedmannite economic system was put in place by the crudest form of state power, namely, a military backed *coup d’état*, invariably supported by the CIA. In one of the great, yet largely unmentioned, ironies of recent economic history, it turned out that the policies of the great Apostle of personal freedom and foe of all governmental interference in the economy could not “be imposed or carried out without the twin elements” of “military force and political terror.”⁵¹ Jose Pinera, who was responsible for the looting, i.e., privatization, of Chile’s social security system claimed that he got the idea by reading Friedman’s book *Capitalism and Freedom*.⁵² According to Naomi Klein:

Chile under the Chicago School was offering a glimpse of the future of the global economy, a pattern that would repeat again and again, from Russia to South Africa to Argentina: an urban bubble of frenetic speculation and dubious accounting fueling super-profits and frantic consumerism, ringed by the ghostly factories and rotting infrastructure of a developmental past; roughly half the population excluded from the economy altogether; out-of-control corruption and cronyism; decimation of nationally owned small and medium sized businesses, a huge transfer of wealth from public to private hands, followed by a huge transfer of private debts into public hands. In Chile, if you were outside the wealth bubble, the miracle looked like the Great Depression.⁵³

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Chapter Ninety-Six

Paul Volcker and Monetarism

In 1976 Milton Friedman received the Nobel Prize for Economics. In granting Friedman this honor, the Nobel Prize Committee ignored not only the misery which his policies had brought about in Chile; it ignored the assassinations of those who disagreed with the implementation of those policies, although, almost as an afterthought, it awarded the next year's Nobel Peace Prize to Amnesty International for exposing the human rights abuses in Chile that was the necessary corollary of enforcing Friedman's economic regime.¹

The period between 1976, when Milton Friedman received the Nobel Prize in economics (and when Woody Allen landed on the cover of *Time* magazine, where he was described as an "American Genius" for directing Annie Hall), and 1978, when John D. Rockefeller, 3rd and his brother Nelson died, marked the changing of the guard in American culture. During this two-year period, the WASP ruling class elite was succeeded by a Jewish elite made up of people who formerly served as their advisors. Milton Friedman, who rose to fame at the Rockefeller-founded and funded University of Chicago could serve as a model of this paradigm shift, as could Henry Kissinger, another Jewish protégé of the Rockefellers. Alan Greenspan, the follower of Ayn Rand, who later succeeded Paul Volcker as head of the Fed could serve as another example of the same paradigm shift, except that Volcker himself was so thoroughly imbued with Jewish, i.e., Friedmanite ideas that it would be more accurate to date the beginning of Jewish hegemony over the economy with his accession to the governorship of the Fed in 1979 rather than Greenspan's. Both Paul Volcker and Ronald Reagan, who became President of the United States one year after Volcker became head of the Fed, were devoted disciples of Milton Friedman and the Jewish version of laissez-faire capitalism which Friedman had been promoting for decades at the University of Chicago.

Volcker became head of the Federal Reserve System as the result of desperation on the part of Democratic President Jimmy Carter. Under the influence of Keynesianism gone to seed, inflation had morphed into "stagflation," the economic version of an antibiotic-resistant form of germ, one that simply was not responding to all of the standard forms of treatment. As a result the nation's bondholders were becoming restive, and Jimmy Carter, who faced an uphill re-election battle in 1980, was becoming nervous and determined to head off a revolt on Wall Street. Carter faced an

up-hill battle because by 1980 the mood in the country had already turned conservative. Large numbers of Catholic voters were fed up with the social engineering that was the flip side of Keynesian economics. Social engineering had destroyed virtually all of the Catholic ethnic neighborhoods of America's large northern cities. As if that weren't bad enough, the WASP birth control campaign, which began in the 1930s, had been succeeded by the Jewish campaign for abortion rights, which after succeeding in New York and California, eventuated in the 1973 Supreme Court decision, *Roe v. Wade*, which overturned at one stroke laws prohibiting abortion.

Jimmy Carter inherited the liberal Keynesian agenda, along with the legacy of social engineering which had made it unpalatable to large segments of the American electorate. So when Ronald Reagan became the first presidential candidate to oppose abortion, many Catholic ethnics jumped the Democratic ship that had been their traditional political home and voted "conservative." No Catholic in his right mind would have voted for a candidate dedicated to union busting, as Reagan was, but the purpose of social issues like abortion was to disguise that fact and get the votes necessary to push through an economic agenda diametrically opposed to the interests of the majority of the people who voted for it.

Tectonic shifts of this sort did not go unnoticed at the Fed, which

had its antennae up all the time, testing the highest winds. They saw the winds shifting to the private capitalistic philosophy of monetarism and so they shifted their operating techniques in that direction. What they did was chameleon-like—shifting away from Keynesian liberal philosophy and adopting the conservative monetarist philosophy. They were perfectly positioned for the Reagan election. In fact, they probably concluded from the soundings in the fall of 1979 that the country was headed toward a conservative victory and the country would be ready to accept a tight-money policy from the Fed.²

Paul Volcker took the oath of office as governor of the Federal Reserve System on August 6, 1979. Three months later, on November 4, a group of Iranian students, claiming that that US Embassy housed CIA agents who were trying to undo the recent Islamic revolution, broke into the embassy compound in Tehran and took more than 60 Americans hostage. The ensuing crisis would occupy the Carter White House for the rest of its existence, pre-empting any examination of the actions of the newly appointed head of the Fed. After Paul Volcker took office he could re-institute Benjamin Strong's failed policy of attacking inflation by throwing people out of work with little or no public notice. Also unnoticed was the fact that the war on inflation which the Fed, representing the interests of the creditor class, waged under Paul Volcker's direction was in reality war on labor.³

Inspired by the monetarist theories of Milton Friedman, both Ronald Reagan and Paul Volcker collaborated in an attack on labor in the interests

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of the usury class, from which the United States economy has yet to recover. Paul Volcker returned to the policies Benjamin Strong had implemented when he brought about the Depression of 1920-21, but he applied them with a ferocity that can only be described as Jewish in its total disregard of the common good and total subservience to the interests of the usury class: If “Bondholders depended on the Federal Reserve to protect their wealth, because as inflation cheapened the value of the dollar, it directly eroded the value of their long-term financial assets,”³ then Volcker’s job as head of the Fed depended on how well he served the bondholders’ interests. The bondholders who made up the bulk of the usury class “were the wealthiest individuals and financial institutions that owned most of the capital invested in long-term debt paper, including the US government’s.”⁵ The wealthiest 10 percent of American families “owned 72 percent of corporate and federal bonds held by individuals plus 86 percent of state and local bonds.”⁶ The Fed had been created to serve their interests, and with the exception of the Keynesian interlude, which added full employment to the Fed’s mandate, that is precisely what the Fed had done. Whenever it reached a fork in the economic road, it invariably chose the path of “hard money” over the needs of labor. Now with a nation fed up with the social engineering that was the inevitable accompaniment of Keynesian economics, the creditor class saw its moment of opportunity, and it saw equally clearly that Volcker was their champion. Organs of the usury class like *The Wall Street Journal* used social issues like abortion to obscure the contradiction between democracy and capitalism that lay at the heart of the American political system. Anyone who understood that contradiction clearly knew that:

What was good for this affluent minority of citizens, of course, might or might not be good for the rest of the country, and, very often, the bondholders sought the opposite of what the majority wanted. In the early spring of 1981, the nation at large would not likely have urged the Federal Reserve to raise the price of money still further, but that is what the anxieties of the bond market demanded. Like all special-interest groups, of course, the bondholders saw their own self-interest as synonymous with the national interest.⁷

As Murray Rothbard had pointed out, there was only one way to ensure that the ducats of the usury class would swell in value, and that was by creating deflation, and deflation could only be created by driving down wages. So the war on inflation which Volcker inaugurated in earnest in 1981 was in reality a war on labor. Volcker waged this war on labor in two ways, one old and one new. In the first instance, Volcker simply made money more expensive by raising interest rates. Deprived of credit, the weakest sectors of both manufacturing and agriculture would be forced to the wall, and their assets would be bought up by the larger players at pennies on the dollar. The novel element in Volcker’s approach was Milton Friedman’s mon-

etarism. Believing that inflation was always and everywhere a monetary phenomenon, Volcker would gauge the effectiveness of his anti-inflation efforts based on the size of the money supply and nothing else.

No matter how it got waged, the war against inflation was a war against labor. Once the firms at the weaker end of the economic spectrum were deprived of credit and went belly up, their workers became unemployed, which meant that there was increased competition for fewer jobs, which meant that wages dropped. And since wages were the main engine pushing inflation, at least according to Volcker, unemployment was good. The longer Volcker held interest rates high, the more people he threw out of work. Since many of the businesses which employed these people went out of business permanently, many of their employees became permanently unemployed or got rehired at significantly lower wage levels. This permanent pool of un- and underemployed workers would act then as a permanent check against the return of inflation. The misery of the worker would insure, in other words, the swelling of the usurer's ducats, just as Murray Rothbard had predicted. "A weak economy," in other words, "assured the bondholders that their money was safe."⁸

The second weapon in Volcker's arsenal against inflation was monetarism, a novel approach dictated by Milton Friedman's understanding of the money supply as the sole cause of inflation. Since the main issue was the money supply, all that Volcker needed to do was keep his eye on M-1, making sure that it didn't expand beyond the 3 percent annual rate that Friedman had decreed, and everything else would take care of itself. Unfortunately, in its rush to privilege the usurer over the laborer in the American economy, Congress had hopelessly complicated the issue of gauging the money supply at the very moment when Paul Volcker had established it as his only criterion for managing the economy.

Reacting to what they perceived as the conservative mood in the country, the Congress tried to deregulate the economy by passing the Monetary Act of 1980. That act set the stage for Volcker's war on inflation by effectively overturning all of the nation's usury laws. Freed from the last vestiges of what it viewed as medieval morality, the Fed could now pay over 20 percent on Treasury Bills, thus enabling the banks who borrowed from the Fed to charge similarly usurious rates when they lent money to small businesses and prospective homebuyers.

The Supreme Court quickly followed suit in *Marquette Nat'l Bank of Minneapolis v. First of Omaha Service Corp.*, a decision which "interpreted a Civil War era federal law as permitting a national bank to charge the legal rate of interest either of the state where it was located or where it is doing business."⁹ By the early '80s, the Supreme Court had "eliminated 200 years of democratic state interest rate regulation of bank loans."¹⁰ Congress then

“extended the effect of the decision to all FDIC-insured state-chartered banks and branches of foreign banks,” in what amounted to “a near total preemption of state usury law.”¹¹

The Jewish-led sexual revolution, which began when Hollywood overturned the essentially Catholic production code over a two year period beginning with the release of *The Pawnbroker* in 1965 and ending with the release *Who's Afraid of Virginia Woolf?* in 1967, found its culmination in the de-criminalization of abortion in 1973. The decriminalization of usury by the Monetary Control Act of 1980 was only the logical extension of the wave of moral “liberation” which began with the sexual revolution. Greider sees the same connection when he writes:

For some years, American society had been engaged in an era of moral liberation The Catholic sin [*sic*] of abortion was legalized. . . . Moral inhibitions that had held authority for centuries were abandoned. Old notions of sinfulness were redefined as largely private matters, no longer subject to public regulation. . . . In this climate of moral change, American finance was also liberated to do what had once been forbidden. The sin of usury was legalized by an act of Congress.¹²

Unlike the reaction to abortion, which would propel Ronald Reagan into the White House in 1980, there was no controversy surrounding the decriminalization of usury, even though the same rhetoric would be applied to both “liberations”: “Lending money at ruinous rates would now be regarded, like sex, as a ‘victimless crime,’ a private act between consenting adults.”¹³ Since the traditional moral condemnation of usury was at odds with the dynamics of capitalism, which was state-sponsored usury, any erosion of morals was going to be good for capitalism. Viewed in this light, the sexual revolution can be seen as the first phase of a plan of moral deregulation whose ultimate goal was freeing the capitalist system of the last vestiges of moral restraint. With the passage of the Monetary Act of 1980, that goal was achieved. The moral poles had been reversed:

Creditors were now portrayed in the political debate as the victims, the virtuous citizens who were exploited by political interference. Borrowers were described as morally suspect. . . . The original social contract implied by the concept of usury—the obligations of wealth toward the needs of others—was inverted. The congressional debate described a new political obligation: the savers must be set free, free to seek the highest rate of return on their money.¹⁴

Once the Fed started paying over 20 percent on T-bills, usury statutes became meaningless because the entire economy had to follow the Fed's lead. Banks which borrowed from the Fed at record high rates had to charge their customers even higher rates to make a profit. Greider claims that “the moral offence” involved in usury “was profit without work. The usurer sold time, which belonged only to God.”¹⁵ But by the 1980s, the religious terminology was all on the side of the usurer. When Paul Volcker

and other defenders of usury referred to their attempts to return to the pre-Keynesian era of hard money, they invariably referred to “suffering” of the salutary sort that took place in “purgatory.” Hard money was the “old-time religion” that needed to be brought back to pay for the Keynesian binge. According to David Stockman, Reagan’s director of the Office of Budget and Management, “The president would say to us: ‘We’ve been on a binge for 30 years. This is the price you have to pay’”⁶ according to the “old time religion.”

Greider claims that “The payment of interest was the core of the capitalist dynamic—it mobilized idle wealth for productive enterprises,”⁷ but in pointing out the errors of the usurers, Greider often can’t distinguish between the ten commandments and the golden calf, as when he writes:

The advocates of gold relied upon divine authority to enforce this natural order. If humankind pledged obedience to God’s indestructible metal, it would be rewarded with eternal assurance of stability. Both doctrines, gold and monetarism, were expressions of pre-modernist fundamentalism, simple and certain moral formulas for life, and their certitude had deep appeal, especially in anxious times.⁸

If the gold standard is orthodoxy, then Keynes can certainly be described as a heretic, but the terms are deceptive because the real orthodoxy in both moral and economic matters preceded the gold standard. Greider fails to grasp the paradox at the heart of Keynesianism when he claims that Keynes and his followers:

claimed that men and women could responsibly manage human affairs for themselves. They were rationalists who dismissed the “old-time religion” and its false moral commandments. Universal human pleasure, Keynes announced, did not require a requisite measure of Calvinist pain. It required the application of human intelligence.⁹

Human intelligence may or may not be able to bring about “universal human pleasure” (whatever that means), but it can only bring about a sound economy through the application of practical reason, which is to say universal norms which proscribe anti-social behavior like usury.

Advocates of the real “old time religion,” like St. Antonino of Florence, would counter Greider’s argument by saying that usury on loans was the antithesis of productive investment (and charity), because, unlike equity investments, there was no shared risk on a loan. Even the guardians of the rentier class understood this fact. Fed Governor Charles Partee pointed out “the fundamental difference between equity and debt” when he claimed that: “You are not required to pay a dividend to stockholders if your profits are down. But if you don’t service your debt, you go bankrupt.”²⁰ This fact would become painfully apparent during the leveraged buy-out frenzy of the 1980s, when equity got exchanged for debt on a massive scale with dev-

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astating consequences for America's manufacturing sector, as one corporation after another failed because it had been saddled with more debt than it could sustain. In 1984, at the height of the LBO frenzy, US corporations turned \$72 billion in stock shares into debt.²¹ Much of that money got siphoned off into exorbitant fees for the managers of the deals. Next to nothing got invested to make the companies more productive. It was one more instance of usury facilitating the looting of American labor.

When Congress enacted the Monetary Control Act of 1980, "State usury laws—which prohibited interest rates from rising above acceptable levels—were unilaterally suspended by act of Congress."²² The suspension of usury laws would prove to be a disaster for small businesses and the working man, but the high interest rates it allowed proved to be a boon for the banks:

The Monetary Control Act of 1980 represented a major tax cut for the banks, totaling many billions of dollars. When the new rules were fully phased in, the member banks would be freed of nearly \$14.5 billion in reserve requirements—money that they could then invest at market rates.²³

The real winners of the moral deregulation of the '80s were the big banks, which because of reduced reserve requirements now suddenly had billions of their assets freed up at precisely when the government was paying unprecedentedly high interest rates. Many of the legislators who passed the Monetary Control Act of 1980 profited from it financially. The banks contributed generously to the campaigns of their congressional supporters, but beyond that more than one-fourth of the Congressmen who passed the bill had a direct financial stake in the outcome. Ownership of stock in financial institution among congressmen "exceeded their holdings in manufacturing, law, arms, or oil and gas."²⁴

One of the changes that was part of the wave of deregulation which flowed from the Monetary Act of 1980 was granting banks the right to pay interest on checking accounts, a move which hopelessly obscured the boundary between M-1 and M-2, the two main sections of the money supply, at precisely the moment when Paul Volcker needed an accurate understand of the money supply to manage the economy according to Friedmanite monetarist principles. Many economists claimed that using the money supply was not an accurate gauge of how to manage the economy, but in the aftermath of the Monetary Control Act of 1980, there was no accurate account of the money supply even if the Fed chairman wanted to use it as his criterion. Volcker was managing the economy according to a rubber yardstick or no yardstick at all. As a result, Volcker steered the economy into the rapids on monetarist principles when "the economic relevance of M-1 was now unknown."²⁵ The results would prove to be nothing short of disastrous for the economy.

On January 20, 1981, Ronald Reagan was inaugurated President of the United States, and on the same day, the hostage crisis ended. The link between the two events was not coincidental. The Reagan campaign had bribed the imams to prolong the hostage crisis as a way of embarrassing Jimmy Carter and winning the election. With the crisis that destroyed the Carter presidency out of the way, Reagan then implemented the same economic theories that Paul Volcker was implementing at the Fed. "Reagan," according to Greider, "was the first modern president who could fairly be labeled a monetarist. He was a disciple of Milton Friedman's."²⁶ He knew, therefore, that another word for driving down inflation was increasing unemployment.

It didn't take Reagan long to declare war on labor. When 13,000 members of the Professional Air Traffic Controllers Organization walked off the job on August 3, 1981, Reagan was handed his *casus belli* on a silver platter. That afternoon, Reagan announced that the strikers had 48 hours to return to work or face termination.²⁷ After courting the union's support during the 1980 presidential election campaign and commiserating with them over their long hours and low pay,²⁸ Reagan responded to PATCO's strike by firing 11,000 strikers and ordering the Justice Department to indict 75 of the union's leaders. A federal judge complemented Reagan's work by imposing fines of \$1 million per day for the duration of the strike. Faced with this government fire-power, the strike collapsed; the union was ultimately decertified, and a warning went out to organized labor that the New Deal was officially over:

By the 1980s, the New Deal reforms that protected labor and agriculture had already lost their effectiveness Labor unions . . . had also lost much of their power to control access to jobs. Corporations, facing their own cost squeeze on profits, had discovered how to escape the wage demands of organized labor. They simply moved the factories away from the unions. Manufacturing jobs were relocated first from the industrial North to the underdeveloped South, where willing workers accepted lower wages and the absence of union protection. Next, the jobs were moved overseas to low-wage countries around the world.²⁹

Widespread acceptance of Friedman's Chicago School economic theories enabled the American government to attack labor in the United States, just as it had enabled the attacks on labor that immediately followed the installation of Friedmanite dictatorships in Chile and Argentina. Caught in a crossfire between the Fed and the White House, labor lost the gains it had made during the Keynesian/New Deal era. From the Friedmanite perspective, the war on inflation and the war on labor were two sides of the same coin. As a result of declaring war on inflation, "Volcker wanted wages to fall, the faster the better. In crude terms, the Fed was determined to break labor."³⁰

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Paul Volcker talked repeatedly about pain, but not the fact that he was inflicting that economic pain on one segment of the economy, labor, for the benefit of the other, the creditor class, who were making money hand over fist because of record high interest rates. But those who could read between the lines could discern Volcker's intention, as when he said, "those signs have not yet been confirmed by clearly visible and significant progress toward wage deceleration."³¹ The economists in the White House, to give just one example of a group which knew what Volcker was up to, knew that: "Volcker wanted to break the back of wage trends just as much as he wanted to break commodity price speculation."³² In public, Volcker would claim that the pain was temporary and that a return to sound money would mean "increases in real wages," but in private he knew better. "Wages," Volcker told David Stockman, "are about two-thirds of GNP, and inflation can't come down faster until labor unit costs come down faster."³³

Eventually, Volcker would have to throw 20 million workers out of their jobs to make his point: "Inflation would not be securely defeated, Volcker insisted, until all those workers and their unions agreed to accept less. If they were not impressed by words, perhaps the liquidation of a several million jobs would convince them."³⁴ The only thing that made deflation possible was a permanent pool of surplus labor, which drove wages down. "By first breaking wages, business could reduce its costs and thus, retain its profit margins without the necessity of raising prices."³⁵ In order to bring that about, Volcker created more business failures in 1982 than at any time since the Great Depression. Those business failures were concentrated disproportionately in "the industrial core of America—manufacturing, mining, and construction sectors that traditionally had the strongest unions and the highest blue-collar wages." By the time it was over the recession had driven 4.3 million Americans into poverty.³⁶ Industrial production shrank from its 1979 peak by nearly 12 percent, while personal income from interest grew by 67 percent. The real economy based on labor was languishing, and finance based on usury was flourishing.

Endnotes

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- 3 Greider, p. 75.
- 4 Greider, p. 371.
- 5 Greider, p. 372.
- 6 Ibid.
- 7 Ibid.
- 8 Greider, p. 371.
- 9 Brian M. McCall, *The Church and the Usurers: Unprofitable Lending for the Modern Economy*, (Ave Maria, FL: Sapientia Press at Ave Maria University, 2013), p. 137.
- 10 McCall, p. 138.
- 11 Ibid.
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- 15 Greider, p. 172.
- 16 Greider, p. 420.
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- 19 Greider, pp. 420-1.
- 20 Greider, p. 662.
- 21 Ibid.
- 22 Greider, p. 156.
- 23 Greider, p. 162.
- 24 Greider, p. 163.
- 25 Greider, p. 384.
- 26 Greider, p. 354.
- 27 Jason Manning, "The Air Traffic Controller's Strike," *The Eighties Club*, 2000, <http://eightiesclub.tripod.com/id296.htm>
- 28 Ibid.
- 29 Greider, pp. 451-2.
- 30 Greider, p. 429.
- 31 Greider, p. 430.
- 32 Ibid.
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- 34 Greider, p. 431.
- 35 Greider, p. 454.
- 36 Greider, p. 455.

Chapter Ninety-Seven

Laborem Exercens and the War on Labor

On September 14, 1981, one month after 13,000 air traffic controllers had lost their jobs, the Vatican issued Pope John Paul II's encyclical on labor, *Laborem Exercens*. Since it was intended to commemorate the 90th anniversary of *Rerum Novarum*, *LE* should have appeared on May 15, but it was delayed because of an attempt on the pope's life. Taking his cue from Leo XIII, John Paul II re-emphasized the centrality of human labor to any economic system. Labor is not simply another commodity, another line item on a budget spread sheet because "work is 'for man' and not man 'for work.'" In proclaiming this truth, the Church had had to fight an uphill battle against "the various trends of materialistic and economic thought."

Whenever an economic system treats work as "a special kind of 'merchandise'" or as "an impersonal 'force' needed for production," it runs the danger of repeating "the error of early capitalism," by treating man as "on the same level as the whole complex of the material means of production, as an instrument and not in accordance with the true dignity of his work, that is to say, where he is not treated as subject and maker, and for this very reason as the true purpose of the whole process of production." Capitalism's "degradation of man as the subject of work" created a "system of injustice and harm that cried to heaven for vengeance." The main response to that cry was socialism and communism, which created, as the pope knew from personal experience, problems of their own, but the cause of the problem, as Pius XI had pointed out in *Quadragesimo Anno*, was economic liberalism or capitalism. As Pope John Paul II said,

the liberal socio-political system, which, in accordance with its "economic" premises, strengthened and safeguarded economic initiative by the possessors of capital alone, but did not pay sufficient attention to the rights of the workers, on the grounds that human work is solely an instrument of production, and that capital is the basis, efficient factor and purpose of production.

Pope John Paul II then asserted the fundamental, bottom-line principle of Catholic social teaching; the one "principle that has always been taught by the Church," is "the priority of labor over capital." That means that "labor is always a primary efficient cause," while "capital, the whole collection of means of production, remains a mere instrument or instrumental cause." The truth which emerges from "contemplating the whole of man's historical experience," is that capital is in reality human labor; "everything that is at the service of work . . . is the result of work."

The principle of the priority of labor over capital:

diverges radically from the programme of collectivism as proclaimed by Marxism and put into practice in various countries in the decades following the time of Leo XIII's Encyclical. At the same time it differs from the programme of capitalism practised by liberalism and by the political systems inspired by it. In the latter case, the difference consists in the way the right to ownership or property is understood. Christian tradition has never upheld this right as absolute and untouchable. On the contrary, it has always understood this right within the broader context of the right common to all to use the goods of the whole of creation: the right to private property is subordinated to the right to common use, to the fact that goods are meant for everyone.

But the priority of labor over capital applies to both capitalist and non-capitalist economic systems because it is a "postulate of the order of social morality." It exists prior to any economic system because morality, rooted as it is in the exigencies of free will and human choice, is antecedent to all economic decisions, which seek by their nature to achieve the good in an economic context.

Because labor is the *sine qua non* of all wealth production, it needs the protection of government, which needs to protect it from all forms of usury. The "attainment of the worker's rights" needs government support; it cannot be left to the vagaries of the free market, the gold standard or any other self-regulating, market-based mechanism, which in reality is nothing more than a Tarnhelm which renders the usurer invisible. The main criterion for judging the worth of any economic system is its treatment of labor. The main criterion is the wage, and the main criterion for a wage is family life. If a man can raise a family on his salary alone, the wage he is earning can be said to be objectively just. A subsistence wage means no children, and no children means the end of the work force, which is the historical trajectory of all usury-based economies.

Since the "attainment of the worker's rights" cannot be left to chance or the vagaries of the market, "The role of the agents included under the title of indirect employer," which is to say, the role of government, "is to act against unemployment, which in all cases is an evil, and which, when it reaches a certain level, can become a real social disaster."

The "real social disaster" which the pope predicted was happening as he spoke, not in Poland under the heel of Soviet communism, but in the United States under the leadership of Ronald Reagan, who would soon become the pope's co-belligerent in the anti-Communist crusade. The Catholic imperative which claimed that the role of government "is to act against unemployment" had been enshrined at the Federal Reserve System during the Keynesian era under Marriner Eccles, but Paul Volcker had not only abandoned that imperative, he was actively involved in throwing millions out of work as part of his campaign against inflation. *Laborem Exercens*

defended the right of association in general and the right to join labor or trade unions in particular. The pope also endorsed the right to strike:

as legitimate in the proper conditions and within just limits. In this connection workers should be assured the right to strike, without being subjected to personal penal sanctions for taking part in a strike. While admitting that it is a legitimate means, we must at the same time emphasize that a strike remains, in a sense, an extreme means. It must not be abused; it must not be abused especially for "political" purposes. Furthermore it must never be forgotten that, when essential community services are in question, they must in every case be ensured, if necessary by means of appropriate legislation. Abuse of the strike weapon can lead to the paralysis of the whole of socioeconomic life, and this is contrary to the requirements of the common good of society, which also corresponds to the properly understood nature of work itself.

In his perfunctory handling of *Laborem Exercens* in *Witness to Hope*, his biography of Pope John Paul II, George Weigel claims that "When it was issued, *LE* was taken to be the pope's philosophical defense of the Solidarity movement."² If so, this misdirection away from the American scene, where Ronald Reagan and Paul Volcker were conducting an all-out war on labor, was due largely to the efforts of Weigel's neoconservative mentor Michael Novak. After beginning his career as a Christian socialist and promoter of sexual liberation, Novak joined the staff of the American Enterprise Institute in 1978, just as the neoconservative movement was gaining steam and moving from Trotskyite to Reaganite politics.

Novak would go on to brag about his candle-light dinners with Pope John Paul II, but at this point (*Spirit* appeared in 1982), the author of *The Spirit of Democratic Capitalism* portrayed the pope as a Polish ignoramus who knew nothing about economics. Novak wrote *The Spirit of Democratic Capitalism* as a theological justification for Catholics wishing to abandon the Democratic Party and support the Reagan Administration's crusade against Communism. Supporting the Reagan agenda had other sequelae less congenial to the Catholic mind, like the assault on unions that began with the firing of the air traffic controllers, but those and other negative consequences of the Reagan era, like opening up the American auto market to the Japanese in exchange for the purchase of Treasury bills, did not seem apparent at the time.

One of the main reasons they did not seem apparent at the time was Michael Novak. Professor Stephen M. Bainbridge referred to Novak as "the foremost Christian thinker on the economy," and to *The Spirit of Democratic Capitalism* as "undoubtedly his magnum opus." *The Spirit of Democratic Capitalism*, Bainbridge continues, "appeared in a *samizdat* . . . edition in Poland during the 1980s and had an obvious impact on the Solidarity movement. Its reasoned defense of democratic capitalism as being grounded in the humane values of the Judeo-Christian tradition also

helped give a moral center to the neoconservative movement”—or at least the appearance of a moral center.

Less sanguine in their evaluation of the effect that Novak's magnum opus had on discourse about economics, especially among Catholics, are the editors of the I H S Press edition of Amintore Fanfani's classic *Catholicism, Protestantism and Capitalism*. If Fanfani's contention that "there is an unbridgeable gulf between the Catholic and the capitalistic conception of life" fell on deaf ears during the Reagan era, especially, among Catholics, the main reason for that deafness was Michael Novak, "the man," according to the editors, "who has come to represent all that Catholic thought has to say on economic subjects."³

Novak was one of a line of high-profile Catholics in the post-World War II era who made a living by subverting Catholic social teaching in the interest of the people who were paying their salaries. In Novak's case, that meant the American Enterprise Institute, a Zionist, free market think tank, funded by Jewish-led private equity firms like the Carlyle Group. Novak was preceded by William F. Buckley, whose subversion of John XXIII's encyclical *Mater et Magistra*, was made famous by the phrase "Mater, si; Magistra, no!" Novak was followed by people like his protégé George Weigel, who after reading Benedict XVI's contribution to Catholic social thought, *Caritas in Veritate*, claimed the uncanny ability to discern which parts of the encyclical were credible (those views compatible with the neoconservative think-tanks and their affluent backers were written in gold) and which were not (which were written in red).⁴ Weigel's tendentious column appeared in the online version of *National Review*, the magazine which William F. Buckley had founded to warn Catholics about papal socialism. Even the most obtuse blogger could discern Weigel's agenda:

What really seems to be going on here is this: Weigel is expressing his discomfort with *Caritas in Veritate* and those elements that are contrary to the neo-liberal positions to which he clings. For years he has been proclaiming the alleged liberalism of John Paul II in an effort to bring together Catholic social principles and conservative ideology in America. The latest encyclical threatens this union, so Weigel has invented sources of light (who write with gold ink) and darkness (who write in red ink), situating them together in a grand epic that narrates their clashes in the writing of papal social encyclicals. Weigel, then, fancies himself our guide through the story (since he has those degrees in Vaticanology), parsing out what is good and true, and what is just "clotted and muddled."⁵

By the beginning of the new millennium, the most prominent double agent involved in subverting Catholic social teaching in the name of espousing it was Father Robert Sirico, whose Acton Institute was one of the first creations of the Atlas Economic Research Foundation, which was spawned by the Mont Pelerin Society.

During the '70s, Robert Sirico was a homosexual activist who got himself ordained as a minister in the homosexual Metropolitan Community Church. Sirico made "gay" history when, on 12 April 1975, he performed the first same sex "marriage" in the United States of two male homosexuals at the First Unitarian Church of Denver, Colorado. One year later Rev. Sirico dressed in a black clerical suit with a Roman collar, made the pages of the *Seattle Post Intelligencer* under the headline "Male Slave Mart Raid in LA called a Mistake." On April 10, 1976 Los Angeles policemen dressed in riot gear arrested 40 persons participating in a homosexual "slave market" held at the Mark IV Health Club in Hollywood. The bathhouse was operated by a sadomasochist cult called the Leather Fraternity. Nude "male slaves" were led on stage by an auctioneer and inspected by potential buyers. "Slaves" went for \$10 to \$75. The undercover policeman at the auction told the press that he picked up a man for \$16 following assurances from the auctioneer that the "volunteer for charity" would perform specific sex acts on him. The event was sponsored by the Los Angeles Gay Community headed by Rev. Sirico, who told the *PI* reporter that the Los Angeles Police Department was "out to get" the gay community. Rev. Sirico called the event a "harmless fund-raising event" staged to raise money for the Center's venereal disease clinic.⁶

Shortly after defending the Male Slave Mart in Los Angeles, Sirico moved to San Francisco, where he converted to Libertarianism and became a spokesman for Libertarians for Gay Rights. Sirico then got himself ordained as a Catholic priest under dubious circumstances and subsequently claimed to have abandoned the homosexual lifestyle, but the not the libertarianism he embraced during his period of homosexual activism.

In his own words in a dinner talk given on June 22, 2006 in San Francisco marking the 25th anniversary of the Atlas Economic Research Foundation, Sirico notes: "I remember 17 or so years ago, walking through the cobblestone streets of Guatemala, as a priest speaking to Alex Chaufen and expressing to him my frustration at the tendency to socialism within religious circles. The keen riveting insight that he gave me in a few words: He said 'institutionalize yourself, recreate the process that introduced you to liberty.' So in a real way since the inception of the Acton Institute, we have followed that advice that Alex, then John Blundell, and of course Leonard Liggio, who is my 'godfather of liberty' as it were have helped us to promote. That's why it's a personal honor and privilege to be with you tonight to celebrate this worthy event. . . ."

Leonard Liggio served as a trustee of the Acton Institute from 1990 to 1999 and is currently on its Advisory Board. He is the Executive Vice-President of Atlas and President of the Mont Pelerin Society. Through his connections with the interlocking directorates of organizations like the Atlas

Economic Research Foundation and the Mont Pelerin Society, Liggio provided Sirico with “an open door” to the corridors of power within the vast Atlas global network of “market oriented” think tanks. In 1990, the same year that the Acton Institute was created, Sirico was invited to join the Mont Pelerin society. Within a year the grants began to pour in. In 1991, Acton received \$100,000 from the rabidly pro-abortion Sarah Scaife foundation. Between 1995 and 1999, the Scaifes would donate \$465,000 to Acton. Acton received a grant of \$100,000 from the Charles G. Koch Charitable Foundation. Koch would go onto bankroll Tea Party activists like Scott Walker, who was elected governor of Wisconsin in 2010 and promptly arranged to have Wisconsin’s power plants transferred to Koch out of gratitude for his largesse. That and other transactions led to an attempt to impeach Walker that failed, but even in failing bequeathed a new word to America’s political and economic lexicon: Kochsucker, which is defined as “anyone involved in politics who advocates policies that benefit corporations, big business and right wing interests, under the guise that those policies will actually benefit normal Americans.” Between 1993 and 2004, The Acton Institute received an additional \$86,000 from the Koch Foundation.

In May 2013 Father Sirico told a *New York Times* reporter writing an article on striking adjunct professors at Duquesne University that *Rerum Novarum*’s support of unions was “historically contingent.”⁷ “In the industrial revolution, the church was concerned about communism, and not just capitalism but savage capitalism,” Father Sirico said. “People were being brutalized. That’s just not the case in Pittsburgh today.”⁸ As with Weigel’s attack on *Caritas in Veritate*, the outrage among Catholics who had some knowledge of what the encyclical had actually said on the issue was palpable. The Jesuit magazine *America* called Sirico’s statement “astounding in its ignorance or mendacious misrepresentation of the basis for the Church’s support for unions.”⁹

Endnotes

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- 2 George Weigel, *Witness to Hope: The Biography of Pope John Paul II* (New York: Cliff Street Books, 1999), p. 421.
- 3 Amintore Fanfani, *Catholicism, Protestantism, and Capitalism*, (Norfolk, VA: I H S Press, 2003), p. 7.
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- 8 Ibid.
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Chapter Ninety-Eight

Leveraged Buy-Outs

The high interest rates which Paul Volcker inaugurated to fight inflation fostered the looting of the manufacturing base of the United States through leveraged buyouts. The leveraged buy-out was a predatory economic practice that came about during the era of cheap equity, abundant credit, and the government withdrawal from oversight over the economy that began in earnest during the Reagan era.

But the private equity story really began years earlier when Jerome Kohlberg, Jr. was working for the corporate finance division of Bear Stearns. Instead of continuing to provide capital to businesses to expand their operations, Kohlberg persuaded the board at Bear Stearns that taking over these businesses would be more profitable, because the new owners could extract money directly from the company by saddling it with a huge debt (payable to the new bosses in the form of dividends). Then after craftily manipulating the bottom line by cutting salaries, the new private equity bosses could drive up stock prices and often sell the same company within three to five years and make a handsome profit on top of all the fees that they had already made. All that was needed was a steady income stream to make the interest payments and a cheap supply of other people's money, something which the Fed provided under the long, debilitating reign of Alan Greenspan. A government docile to the interests of the plutocrats provided the other key ingredient, namely, a tax loophole which enabled these predatory takeovers by allowing the firms that got taken over to deduct their interest payments from their taxes. Kohlberg, according to Kosman,

would have the company treat its debt the way other businesses handle capital expenditures—as an operating expense deducted from profits through the depreciation tax schedules, thereby greatly reducing taxes. With far less money to pay the government, his companies could use the money that formerly went to Uncle Sam to retire these huge loans at an unusually fast rate.¹

The first groups involved in leveraged buyouts made fantastic returns on their investment. Kohlberg put down \$4.4 million of his own money to buy Vapor Corp. and got 12-times that amount as return on that investment within six years. He earned 22-times what he invested in the buy-out of Incom, a division of the Rockwell Corporation which produced gears and filters. In 1976, Kosman tells us, "Kohlberg made the decision to strike out on his own, taking along with him younger bankers Henry Kravis and George Roberts to form Kohlberg Kravis Roberts." In the beginning the

buy-out kings were limited by their access to other people's money because "only four to five lenders, such as Bank of America and Security Pacific, were willing to finance these 'leveraged buyouts' and the amount they would make available for such deals was limited."²

All of this changed, however, when Michael Milken turned the Wall Street bank Drexel Burnham Lambert into a printing press that churned out junk bonds during the Reagan era. The process was straight-forward. Drexel enabled the buy-out kings to put up less and less of their own money by agreeing to let the companies getting bought out borrow the rest. Drexel would then resell the loan as junk bonds once the deal was closed. The bonds were offering the, by today's standards, astronomical return of 11 percent, but at that point in time there was still some competition for money. Because commercial banks were offering lower risk CDs that paid 6 percent, the future collapse of Milken's junk bond empire was almost certain.

But before the bill eventually came due, the looters were able to buy big firms like Beatrice Foods and regain their exorbitant purchase price by chopping them up and selling off the pieces of the company for the same price they had paid for the company itself. Milken and Drexel had enabled KKR's hostile takeover of Beatrice, and this sort of looting became, as Kosman put it, "more frequent and more hostile" as the '80s progressed:

Emboldened by their success with firms like Beatrice Foods, the buyout kings began targeting businesses like Federated Department Stores, whose profits were unpredictable. LBO activity increased from \$3 billion in 1981 to \$74 billion in 1989. KKR went on to become the buyout champ of the '80s, acquiring RJR Nabisco in a \$30 billion LBO, the era's biggest.³

Given wretched excess of this magnitude—Ohio Mattress had to meet debt payments equal to 28 times annual earnings—a reaction was inevitable. The press began referring to the leveraged buy-out firms as "a new breed of robber baron."⁴ Hollywood capitalized on the outrage by bringing out *Wall Street* in 1987, in which Gordon Gecko, whom Kosman claims was based on Henry Kravis, proclaimed, "Greed is good."⁵

Benjamin Ginsberg told the '80s Wall Street story from a slightly different perspective. According to Ginsberg, "It apparently did not go unnoticed in executive suites across the country that virtually all the takeover specialists and their financial backers were Jews."⁶ Both Martin and Charlie Sheen played characters which were identifiably Catholic in *Wall Street*, but Gordon Gecko was never identified as a Jew even though all the "rapacious leveraged-buyout kings of the 1980s" were overwhelmingly Jewish. Or, as Ginsberg puts it in *Fatal Embrace*,

Such Jewish financiers as Saul Steinberg, Victor Posner, Carl Icahn, Nelson Pelz, the Belzberg family, Sir James Goldsmith and others were among the leaders in hostile takeover efforts. Of the major actors in the area of corporate take-

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overs, only two—T. Boone Pickens and Cincinnati-based Carl Lindner—were not Jews. Jewish arbitrageurs—Ivan Boesky came to be the most famous—became major factors in the acquisition of huge blocks of stock, easing the way for takeover attempts. Jews pioneered program trading that, among other things permitted corporations to aggregate excess revenues in their pension funds that could then be employed for other corporate purposes.⁷

Ginsberg claims that the Reagan Administration arranged this “marriage of convenience” largely to pursue foreign policy goals and then reneged on the arrangement when it became politically inconvenient. Be that as it may, junk bonds were a Jewish invention because: “The parvenu Jews saw the incredible possibilities inherent in the junk bonds that established firms disdained. The Jews honed the art of risk arbitrage, another field snubbed by WASP Wall Street.”⁸ In an unprecedented reversal of political roles, “the Jewish financier enjoyed the blessing and protection of the Reagan administration,” which “courted the financiers and protected them from a hostile congress.”⁹

The Democratic Party was the traditional political home of the Jews, who, as the saying goes, earn like Episcopalians but vote like Puerto Ricans, but because the Democrats were beholden to the unions, they could not ignore the wreckage which leveraged buyouts were causing in the economy. They could also not ignore the anti-union bias of the PE firms or the toll in lost jobs they were causing. The toll was enormous indeed. Just two years of corporate take-overs, those which took place between 1985 and 1986 wiped out “one-fourth of the corporations that had been listed in the Fortune 500” and the jobs of everyone who worked for them.¹⁰ And in 1986 it looked as if the worst was yet to come.

As a result the Democrats turned on the Jews, or as Ginsberg put it:

Many of Reagan’s opponents in the Democratic party and the liberal media understood that it was the de facto alliance between the administration and the Jewish financiers that made sufficient money and credit available to fuel economic expansion despite the huge budget deficits that would have otherwise diminished the availability of capital to private concerns. . . . By attacking the activities of the Jewish financiers, Democrats hoped to disrupt Reagan’s economic policies, which were damaging their own constituents.¹¹

When the Reagan administration could not protect its Jewish financiers, they were cut loose and began turning on each other. Dennis Levine, “a managing director at Drexel Burnham Lambert and a close associate of many of the major Jewish financiers . . . agreed to cooperate with federal authorities and led investigators to Ivan Boesky. Boesky, in turn, led prosecutors to a number of others, including, most importantly, Michael Milken.”¹² After Milken was indicted, Drexel Burnham Lambert was forced into bankruptcy and the whole leveraged buy-out era came to an abrupt end as criminal investigations became “weapons in partisan warfare.”¹³

By 1987 the government felt that it had to intervene. In October 1987, House Ways and Means committee chairman Dan Rostenkowski closed the last big leveraged buy-out loophole, causing the Dow Jones Industrial average to fall 23 percent, the largest one-day decline in the history of the stock market. By 1989 nine Congressional hearings were planned on the impact of leveraged buyouts. At this point the bad news was undeniable: "Of the 25 companies that from 1985 to 1989 borrowed \$1 billion or more in junk bonds to finance their own LBOs, 52 percent, including wallboard maker National Gypsum, eventually collapsed."⁴

Ultimately, Rostenkowski's effort to rein in the leveraged buyout kings failed. During the 1980s, Congress "considered taking bold action," but "In the end no major changes were made."⁵ Kosman tells us that "In the early 1990s the LBO kings disappeared from public view,"⁶ but the change was more semantic than financial. The change "from leveraged buyout to management buyout to private equity . . . was really a marketing concept."⁷ Fed chairman and Ayn Rand acolyte Alan Greenspan's willingness to keep the cheap money spigot turned on insured that predatory take-overs would continue, no matter what they were called. Banks were now competing with each other to get LBO business.

There are other reasons why this issue was not resolved. One was because of the connection between private equity buyouts and demographics, or as Kosman put it, "State pensions . . . needed higher returns to pay all of the soon-to-be retiring Baby Boomers."⁸ Pension managers needed higher returns because their clients were retiring, and younger workers were not replacing them. By 2006, 51 of 64 state pensions were underfunded, compared with only 25 in 2000. "From 1997 through 2007, the \$24 billion Employees Retirement System of Texas had seen a 17 percent fall in active members and an 85 percent rise in retirees."⁹

Sensing that he had the upper hand over the pension fund managers, Henry Kravis starting flying them to KKR headquarters in his private jet and tying up their money in long-term contracts that benefited KKR. Because demographics were upside down, Kravis could take advantage of what Kosman characterizes as "a huge pool of investment money competing for opportunities."¹⁰ Pension funds were practically begging PE firms like KKR to take their money, and people like Henry Kravis were only too eager to oblige, often tying up pension fund money for a decade into the future, even as returns began dwindling. Kravis knew that he had the pension funds by the short hairs, largely because of the cheap money which Federal Reserve Board Chairman Alan Greenspan continued to make available at public expense. Greenspan's collusion with the plutocrats is just one of many ugly stories which comes out in the private equity saga. If the Fed had raised interest rates to where they were in the early '90s, the

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pension fund managers could have bought T-bills, and predatory middle men like Kohlberg and Kravis would have been eliminated from the equation. Instead, Greenspan chose to act in their interest by keeping the cheap money spigot open.

Given conditions like this, the LBO deals of the 1990s were even more destructive than those of the 1980s. Because of the flood of cheap money at their disposal, private equity firms began bidding on companies that did not have the steady income stream that was the *sine qua non* of the deals of the '80s. PE firms also began bidding on companies based not on independent analysis but on financials cooked up by the companies themselves, and they did this in shorter and shorter periods of time, knowing that if they did not snap up a particular company, someone else would.

Then the PE firms began bidding on companies based on what they might earn given certain favorable conditions. PE firms began buying up real estate in New York City predicated on the assumption that the new owners could drive tenants in rent-controlled apartments out of their leases and replace them with tenants willing to pay multiples of what the current residents were paying. This sort of financial insanity bred still more insanity. Kosman reports that "Moody's Investors Service reported that the seven- or eight-year loans taken out in 2006 . . . could not be paid back for a thousand years at the firms' current rate of earnings."²¹

The buy-out frenzy continued at this insane pace for two reasons: first, because the PE firms earned most of their money on up-front fees that got paid whether the company which got taken over survived or not, but secondly, because the sale was predicated on another quick sale, after the business had been plundered, in what was, in effect, a bubble market. PE firms arranged such risky loans for their companies because they had already made handsome profits in fees. Apollo Management collected \$15 million for the sale of Linens 'n Things, which went bankrupt in 2008 after a 2006 buyout for \$1.3 billion. The buyers, on the other hand, lost the \$648 million they put down to buy the business, and the company had to close and because the illusion under which they bought the firm—"they believed the companies' value would rise, and then they would be able to resell the business or refinance the loans within several years"—came crashing down when credit markets froze up in 2008.²²

The irony of Kosman's book lies in his claim that "regulation works" when in fact, the regulatory attempts of the late '80s which he documents failed miserably. This is not to say that regulation is unnecessary. Rather it's proof that what goes by the name of regulation in a Plutocracy is little more than businessmen in government working for the interests of the firms that will employ them when they leave the "public service" sector and return to the looting operations they served while earning government salaries. Kos-

man tries to back up his claim when he writes that:

the European countries that the World Bank praised in 2004 for having the fewest regulatory burdens on business—England, the Netherlands, Sweden, and Denmark—are the four where PE firms have had the greatest influence and will soon do the most damage when their actions drive many companies into bankruptcy.²³

The more European governments like France, Germany, Ireland, Italy, and Greece were able to regulate their financial markets the more they were able to avoid the type of financial meltdown that characterized the countries which doted on deregulation. If recent economic history has taught us anything, it has shown that the premise of deregulation was a cruel hoax perpetrated by those who had most to gain from its propagation:

despite what people in the private-equity industry claim, the only winners in private equity are the partners, who continually make money from guaranteed fees that the firms charge. Former US treasury Secretary Nicholas Brady, who served under presidents Ronald Reagan and George H. W. Bush, said in January 2009 that not much had changed since the buyout barbarians first appeared at the gate under his watch in the 1980s.²⁴

The attempt at reform in the late '80s failed for other reasons as well. The obvious reason was political influence. "The whole industry was started in order to take advantage of tax loopholes. It was not about, and never has been about, building strong, healthy companies."²⁵ If the laws are written by lobbyists, who were being paid by those who benefited from the loopholes the lobbyists had written into law, it should not come as a surprise that reform efforts failed. *Quis custodiet ipsos custodes?* In a plutocracy, government is run by and for the benefit of the plutocrats. Capitalism is a system which controls the government for the benefit of Capitalists. Private equity is just an especially vivid microcosm of this influence. When the president of the United States leaves office and goes to work for a PE firm, you get some inkling of their political influence. This is precisely what happened when George H. W. Bush left office and went to work for the Carlyle Group, one of the biggest and most predatory of the PE firms. Bush, it could be said, was a creation of private equity, since Henry Kravis was one of his biggest fundraisers. The Bush and Kravis families were, as Kosman puts it, "very close." Beyond that,

Four of the past eight Treasury secretaries joined the PE industry—James Baker (Carlyle), Nicholas Brady (started his own firm. . .) Paul O'Neill (Blackstone) and John Snow (Cerberus)—and they have significant influence in Washington. President Bill Clinton and both president Bushes have also advised PE firms or worked for their companies.²⁶

If Carlyle had the clout to hire politicians like President George H. W. Bush, is it so surprising that the people that Bush hired, like Treasury Sec-

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retary Nicholas Brady, ended up in the same business? Is it surprising that this sort of behavior would replicate itself on down the food chain, making government nothing more than the tool of financial interests? The change of administrations had little effect on the grip which the plutocrats had on government, even at the highest levels: Obama's "Chief of Staff Rahm Emmanuel interviewed for work at PE firm Madison Dearborn Partners and MDP has donated more money to him over his career than any other contributor."²⁷

The second reason reform got thwarted was the all but universal acceptance of the ideology of the free market. This is largely a function of the money that leveraged buyouts can generate and the scribblers that that money can buy. David Rubenstein, PE king and co-founder of the Carlyle Group, is one of the 24 trustees of the American Enterprise Institute, the Washington-based think tank which bankrolled Michael Novak, when he wrote *The Spirit of Democratic Capitalism*, a book which was an assault on Catholic social teaching and the notion that markets need moral regulation. Flush with money from PE firms like the Carlyle Group, AEI has sponsored symposia on private equity which unsurprisingly come to the conclusion that "PE firms [are essentially benign] catalysts for creative destruction" because "they reduce employment in inefficient lower-value segments and accelerate activity through greenfield jobs in new higher value directions."²⁸

The concentration of the nation's wealth in the hands of a few avaricious Jews has led to corruption of both discourse and culture, which is subsidized to serve the Mammonites that feed it. Seventeen of the 400 richest Americans owe their fortunes to looting under the name of private equity. After looting one company after another, throwing thousands of people out of work, these Croesuses then use tax-deductible philanthropy as a form of cultural control, or as Kosman puts it:

Leon Black prefers the arts, having given away or committed, more than \$150 million to educational, health care, and cultural institutions. He has been a trustee of the Museum of Modern Art, Mt. Sinai Hospital, the Lincoln Center for the Performing Arts, Prep for Prep, the Jewish Museum, Cardozo School of Law, the Asia Society, Spence School, and the Vail Valley Foundation.²⁹

Similarly, Henry Kravis

is a past chairman of New York City's public television station and is on the board of the Metropolitan Museum of Art, and like Black, he is a Mt. Sinai Hospital Trustee. Black told the *New York Times* in 2008, "Art and literature are what differentiate us from barbarians."³⁰

The image of the barbarian, the looter, and the robber baron floats in and out of this narrative like the leitmotif in a Wagnerian opera. *Barbarians at the Gates* was one of the most famous accounts of the wretched

excess of the leveraged buy-out era of the '80s. The image has stuck in the minds of the PE kings, less as *mene tekel* than as role model and paradigm: "Unlike the 1980s when the Barbarians were at the gate," Kosman writes, citing one of the looters, "they are now in our homes and dating our daughters."³¹

The problem is there is no control. One reason that usury has been denominated *contra naturam* is that usury, like cancer, ("*Wucher*" is the German word for usury; "*Wucherung*" is the German word for cancerous growth) knows no limit. It has no *telos*. It grows like cancer and only stops growing when it brings about the death of its host. Conversely, the health of any economic entity depends upon the subordination of economic units to the common good as determined by the moral law. Since economic activity is based on human choice, it needs morality as its deep grammar. Economic activity in violation of that grammar is usury, something which leads ultimately to the collapse of all economic activity, something which almost happened in 2008 and which threatens to happen again when private equity loans come due. Economics is dependent upon morality every bit as much as physics is dependent on mathematics. Whenever morality is banned from economic activity, it is only a matter of time before that activity becomes usurious, which is to say, cancerous, which is to say bound to bring about the death of the national economy which is its host organism. Kosman adverts to this lack of natural limit and the safeguards for the economy which it provides when he claims that "PE firms pitted banks against each other to drive better terms" and quotes one financier as saying, "you continually pushed the market to see what the market would and would not accept."³²

Testifying before Congress in October 2008, by then former Federal Reserve chairman Alan Greenspan, a great believer in the self-correcting nature of free markets, explained that he was in "shocked disbelief" that the self-interest of banks had not kept them from making so many bad subprime loans.³³ By now it should be apparent that self-interest is an inadequate form of economic control. It is not a source of control at all; it is rather the source of the problem. That so many people should have so much difficulty recognizing the problem is in large measure due to Libertarian economic theory, which was based on Adam Smith's appropriation of the ultimate self-regulating mechanism, the solar system as expounded by Newtonian physics. Thomas E. Woods, Jr. gives a good example of this appropriation of the 18th century myth of the self-regulating market:

During the 18th century, thinkers impressed by the elegant regularity of phenomena and the beautiful order that Isaac Newton had described in the physical world looked in the social world for similar law-like relationships. And indeed, as Ludwig von Mises explains, the founders of political economy perceived "reg-

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ularity in the operation of the market.” People came to realize “with astonishment that human actions were open to investigation from other points of view than that of moral judgment. They were compelled to recognize a regularity which they compared to that which they were already familiar with in the field of natural sciences.” The analogies to the natural sciences were readily drawn. As Josiah Tucker explained, “The Circulation of Commerce may be conceived to proceed from the Impulse off the distinct principles of Action in Society, analogous to the Centrifugal and centripetal powers in the Planetary System.” Adam Smith appealed to this very model, describing prices as “continually gravitating, if one may say so, toward the natural price.”³⁴

As Woods’ description makes clear, the Newtonian-solar-system-self-regulating market was an alternative to the moral order upon which economic life in England had been based before the looting of Church property which followed from the Reformation. The whole point of a self-regulating market is to make moral effort unnecessary. This abrogation of the moral law invariably benefits those who have their hands on the loot. As R. H. Tawney put it so eloquently, “The upstart aristocracy of the future had their teeth in the carcass, and, having tasted blood, they were not to be whipped off by a sermon.”³⁵ No matter what its legitimate achievements, economic science, if we date the beginning of that science from the writings of Adam Smith, never got over the conditions surrounding its birth as the rationalization of an unjust status quo otherwise known as British imperialism. This goes far to explain the religious aura which surrounds economic thought of the English (or Scottish) school:

The attempt to systematize observations of economic activity into a coherent discipline reflected the intellectual life of the 18th and 19th centuries at its best. They found natural harmonies at work in the market order and concluded that ill-considered efforts to improve the economic well-being of certain groups by means of government intervention were bound to have deleterious consequences, often exactly contrary to the wishes of the proponents. As Mises points out, many of these thinkers found the hand of divine providence in the beautiful order and harmony created by the free market and the division of labor—a supplement to the order in the physical realm that St. Paul and Catholic theology as a whole had always pointed to as evidence of God’s existence and goodness.³⁶

By expelling moral activity from economic endeavor, the Libertarians are forced to conclude that the market, like the Newtonian solar system upon which it is modeled, is the work of God, and, further, that any attempt to bring moral order to that system is an act of either futility or impiety verging on blasphemy. Woods captures this feeling when he writes, as an apologist for the English system: “Observe the functioning of the market . . . and you will discover the finger of God.”³⁷

Perhaps Libertarians can see the “finger of God” in the financial carnage caused by buy-out kings like Henry Kravis and David Rubenstein,

but Josh Kosman sees more banal forces at work when he writes that “Targeting Beatrice [Foods] had more to do with KKR’s ability to scan the tax codes for loopholes than normal business acquisition strategies.”³⁸

John Gray, a former Libertarian, deals with economic issues from a broader perspective than Josh Kosman but comes nevertheless to similar conclusions. Far from seeing the market as the “finger of God,” Gray explains that “In reality, the idea that a free market is a self-stabilizing system is archaic—a curious relic of Enlightenment rationalism.”³⁹ Instead of being a manifestation of “nature,” manifesting the orderly motions of universe as created by God, Gray claims that:

The free market is a construction of state power. The idea that free markets and minimum government go together, which was part of the stock in trade of the New Right, is an inversion of the truth. Since the natural tendency of society is to curb markets, free markets can only be created by the power of a centralized state. Free markets are creatures of strong government and cannot exist without them.... It is well illustrated by the short history of 19th century *laissez-faire*. The free market was engineered in mid-Victorian England in exceptionally propitious circumstances. Unlike other European countries, England has long traditions of individualism. For centuries yeoman farmers were the basis of its economy. But only Parliament [in which most English people were unrepresented] using its power to amend or destroy property rights and create new ones—through Enclosure Acts in which much of the country’s common land was privatized—did an agrarian capitalism of large landed estates come into being.... By the middle of the 19th century, through the enclosures, the Poor Laws and the repeal of the Corn Law, land, labour and bread were commodities like any other: the free market had become the central institution in the economy.... By the First World War, markets had been largely re-regulated in the interests of public health and economic efficiency.⁴⁰

After explaining that the self-regulating market is a concept taken directly from Newtonian physics, Woods contradicts himself by claiming that the Austrian school in general and Ludwig von Mises in particular

rejected the idea that economics should be modeled after physics and the hard sciences. For one thing, the very existence of human choice and free will precluded basing social analysis on such a model, since human beings are fundamentally unlike inanimate objects.⁴¹

Well, which is it? Are markets autonomous manifestations of the “finger of God”? Or are they the product of human choice and therefore subject to moral regulation? The Libertarians can’t have it both ways, but he can’t seem to make up his mind either. If tracking economic activity is similar to plotting the trajectory of a projectile, then Woods has no basis to reject the mathematization of economics. (“The mathematization of the [economics] profession,” Woods tells us at another point, “was not a trend that Mises could favor. . . . There are no constants in human action as there are

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in physics.⁴²) If, on the other hand, economics is, as von Mises contends, really the science of “praxeology,” which begins with the “incontestable” axiom: “human beings act,” then the market is not autonomous and moral regulations apply. If economics is based upon human action, specifically human choice, then economic activity must be subjected to the requirements of the moral law. This is precisely what the Enlightenment, with its promotion of “Newtonian” markets, contests.

Woods ultimately can't make up his mind and so he spends the rest of his book attempting to have his cake and eat it too. His analysis is geared to achieve outcomes which the Austrian school considers desiderata, things like driving down wages. Woods claims that “a legally imposed increase in wage rates independent of an increased demand for labor (which in turn is related to the productivity of labor) must lead to unemployment,” but admits that there is no empirical basis for this assertion. Moreover, he claims that the statement is apodictically true and essentially unfalsifiable:

Since these principles . . . are established on the basis of logical deduction from an irrefutable axiom, they are, to use Mises's words, apodictically true. They are not falsifiable by experience. Economic law is not disproved if no change in unemployment is observed after an increase in the minimum wage to \$25 per hour. All we can say is that unemployment is higher than it would have been in the absence of the minimum wage.⁴³

I wonder what a Libertarian analysis of the history of leveraged buy-outs would look like. How does a principle like “all interventions in the market are futile” apply to an economic phenomenon which, as Kosman points out, is based on a tax loophole? Is the tax loophole which enabled the leveraged buy-out mania a sacrosanct manifestation of “the finger of God”? Or is that tax loophole itself an interference in self-regulating markets, and if that is the case, how are we to proceed?

This brings us to the radically a-historical nature of libertarian economic analysis. Woods criticizes the German historical school and Werner Sombart in particular as having “rejected the idea of universally valid economic law that admitted no exception across nations and epochs, and thereby effectively denied the possibility of economics as such,”⁴⁴ but how else are we to evaluate any economic phenomenon other than historically? How can we tell if a particular economic practice is consonant with “self-regulating markets” or in violation thereof, unless we view the phenomenon historically and ethically?

Woods makes a radical distinction between ends and means—“ethics is prescriptive while economics is descriptive”—but Libertarian analysis is based on a covert notion of the good, which, because it has been smuggled into the system surreptitiously, allows for certain outcomes and not others. According to Libertarianism, the good corresponds to action consonant

with the unencumbered, unfettered operation of the market.

But how does this apply to the question of leveraged buyouts? The answer is that it does not, because leveraged buyouts simply do not show up on the Libertarian radar screen as an economic issue. The fact that PE king David Rubenstein pays for economic analysis at the American Enterprise Institute may go a long way to explaining this economically. But there are philosophical issues involved here as well. If economics is descriptive, then private equity is not and cannot be an economic issue. This fact has consequences. The Libertarians will simply have to live with the consequences of their apodictic claim that economics has nothing to do with ethics by conceding their irrelevance to the real world, as manifested by the problem of private equity.

Woods cites his mentor Murray Rothbard, who explains, “the unquestioned fact that values and ethics are important in guiding the attention of scientists to specific problems is irrelevant to the fact that the laws and disciplines of the science itself are value free.”⁴⁵ Well, if economic science is value free, it cannot deal with, much less, solve the economic problems caused by private equity in the Reagan and post-Reagan era. It can’t even acknowledge the fact that the abuse of private equity is a problem. By tying itself to the fact-value dichotomy, Libertarianism condemns itself to intellectual irrelevance. It ends up being nothing more than the Amen corner for the economic status quo. The very idea that something needs to be changed is a moral insight. If the Libertarians ban ethics from their economic system, they create a world in which everything is perfect, which is a fair approximation of the Newtonian, self-correcting market system and why it has always been primarily a prop for an unjust status quo.

Woods is nothing if not resolute in banning ethics from economics:

It is rhetorically impressive to call for the insertion of a moral dimension into economics, but how exactly this “moral dimension” would figure into economic method is rarely explained. Is it the analysis of supply and demand curves that need moral correction? . . . Is it their analysis of the economic effects of inflation that needs a moral dimension? . . . how could the technical analysis of these effects require a moral dimension? . . . When opponents of value-free economic analysis are thus pinned down, their position disintegrates into incoherence. . . . An economist’s analysis. . . is either correct or incorrect, and not typically moral or immoral. . . . When we say that economics must be value free, we are speaking only of economic analysis; we are not saying that no one may ever render a value judgment about someone’s use of his own economic resources.⁴⁶

The astute reader is tempted to ask, analysis of what? How does the value-free economist determine what needs to be analyzed? In what sense is the abuse of private equity an issue, much less a problem? The answer is that private equity is only an economic issue in light of moral considerations. There can be no radical disjunction between ethics and economics

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because if there were, there would be no such thing as an economic problem, and if there are no problems, there is no reason to analyze anything. Here we come again to the covert notion of the good at the heart of every Libertarian solution. According to Libertarianism, morality is the problem, and the heart of every analysis comes down to the same thing: "ban moral considerations, known as regulation from economic life, and prosperity will follow." If it does nothing else, Kosman's book on the wretched excess of private equity shows that the exact opposite was the case. Libertarianism can't engage in serious economic analysis because, like classical economics, from which it grew, it is ultimately nothing more than the justification of an unjust status quo, portrayed as "nature," "the finger of God," "the invisible hand," "self-regulating markets," etc. etc. In banning ethics from the economic realm, the libertarian has rendered economics blind; he has blinded himself and in doing so, he fails to see that he has condemned his economic views to intellectual irrelevance.

Economics is a science with its own autonomy, but by denying the connection between human choice, morality and economic activity, Woods condemns himself to misunderstand the proper sphere of economic science. Suddenly we are back in the realm of economics as physics which Woods claimed he abandoned when he adopted the principles of the Austrian School:

If economics is a science, then as a science it must be permitted its autonomy. This is why Benjamin Rogge once asked: "... What do the Papal Encyclicals tell us of the justice of Boyle's Law, that the volume of an ideal gas varies inversely with its pressure, other things being equal? Does Christian doctrine tell us that it is fair for a hydrogen atom to contain three isotopes while a flourine atom contains but two? Or, to approach my own topic, is it Christian or un-Christian for a demand curve to be negatively inclined from left to right? ... Let me now put the general case: What does Christianity have to do with the questions of any pure science? ... The answer is, "Nothing, absolutely nothing." There can no more be a Christian science of economics than there can be a Christian science of mathematics."⁴⁷

Because of this posturing, Woods fails to see that there can be no science of economics without a conception of the good, because, as he himself said, economics is based on human choice and all human choice is predicated on some notion of the good. If there is no good, there is no reason to choose, and if there is no choice, there is no economic exchange and ultimately no economy. Conversely, if there is no bad, then there is no such thing as an economic problem. And if there are no economic problems, why do we need economic analysis?

The Libertarian also fails to see that different groups have different perceptions of the good. If we can say that a Christian has a very different perception of the good than a Jew, it follows that a Christian economic sys-

tem will be very different from a Jewish economic system. By banning the Christian system, Woods does nothing more than pave the way for universal acceptance of the Jewish system, the one confected by his Jewish mentors in the Austrian school. According to the school of Jewish economics, as mandated by people like David Rubenstein at places like the American Enterprise Institute, the abuse of private equity is not a problem, and so no further analysis is necessary. Private equity is only an economic issue if you believe that wealth should not be concentrated into the hands of a few billionaires at the expense of the livelihood of millions of workers, which are moral considerations.

The free market isn't self-regulating; it is always a creation of a strong centralized government. The only thing that can regulate the market is the human mind equipped with an accurate understanding of what is good and what is evil. What we need is human effort not pseudo-scientific apologies for an unjust status quo. When it comes to private equity, Kosman informs us that "Leadership is needed to close the tax loopholes that make this very damaging activity possible."⁴⁸ In principle, it's that simple. In practice, it's extremely difficult, as the failure of Congress to put a stake through the heart of this vampire in the '80s showed. The proper practical analysis is only possible in light of the correct moral assessment of the issue. When "Rand Araskog, ITT chairman, said in 1989 that a cap of a 50/50 debt to equity ratio would kill off LBOs,"⁴⁹ he was doing real world economic analysis about a real economic issue, but all of his analysis was based on an ethical foundation. Without that foundation, no economics is possible. Without that foundation, there is nothing to analyze.

The end of Capitalism, brought on by Jewish libertarian deregulation at the hands of "geniuses" like Larry Summers, Robert Rubin, and Alan Greenspan, is total economic collapse, which is the trajectory Capitalism always takes when moral considerations are removed from economic exchange. Usury (Wucher) like cancer (Wucherung) always ends up destroying itself by destroying the economic host which supports it. The alternative to Capitalism is not socialism, as the Woodses of this world claim; it is an economic system which is congruent with the moral law, which is the logos of human choice, which is the foundation of all economic activity. That is the ultimate source of the practical measures which Kosman deems necessary:

PE-owned companies are already collapsing, and tax-law changes are needed now to stop PE firms from investing so recklessly again. History has proven that regulation works During the 1980s buyout boom, Congress made tax-law changes so companies had to pay taxes on the gains they made from selling divisions of their businesses. . . . This made the buy-and-bust strategy of the 1980s a thing of the past.⁵⁰

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Endnotes

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Chapter Ninety-Nine

Jeffrey Sachs and Shock Therapy

In 1984 Ronald Reagan crashed the Bolivian economy by waging war on that nation's coca growers. Within a year, Bolivia had an inflation rate of 14,000 percent and no idea of how to deal with the problem.¹ Bolivian cluelessness provided an opening for a young Harvard professor by the name of Jeffrey Sachs, who felt qualified to take on the job of stopping inflation in Bolivia because he thought that he "knew just about everything that needed to be known" about inflation.² Sachs had studied Keynes and modeled his career on Keynes's, but he

was also a product of Reagan's America, which was, in 1985, in the midst of a Friedman-inspired backlash against all that Keynes represented. Chicago School precepts about the supremacy of the free market had rapidly become the unquestioned orthodoxy in Ivy League economics departments, including Harvard's, and Sachs was definitely not immune. He admired Friedman's "faith in markets, his constant insistence on proper monetary management" and called it "far more accurate than fuzzy structuralists or pseudo-Keynesian arguments one hears a lot in the developing world."³

As fellow monetarist Paul Volcker had done in the United States, Sachs tackled inflation primarily by throwing people out of work: "hundreds of thousands of full-time jobs with pensions were eliminated, replaced with precarious ones with no protections at all. Between 1983 and 1988, the number of Bolivians eligible for social security dropped by 61 percent."⁴ The price of food and gasoline soared as a result of Sachs' efforts, but he opposed any corresponding rise in wages.⁵ As a result, people slipped below the poverty line, something which ironically revived the coca trade because, since it paid ten times as much as other crops, it was the only alternative to total destitution. Cocaine production would eventually prove to be the remedy for inflation and the policies Sachs initiated to defeat inflation; it also put socialism back in power. Evo Morales would become president of Bolivia after his family turned to coca as the only solution to the poverty which Sachs's policies had imposed on Bolivia. His political base was the militant coca growers' union.⁶ By the time Sachs finished with Bolivia, somewhere in the neighborhood of 350,000 people were earning a living from selling drugs. In spite of this fact, Sachs went on to be celebrated as the man who brought "Bolivia's Miracle," and the star status that accompanied this claim allowed him to fail upward and wreak similar havoc in Argentina, Peru, Brazil, Ecuador and Venezuela in the coming years.⁷

Sachs's real opportunity, however, came in the aftermath of the fall of the Soviet Union. In 1988 Sachs flew to Warsaw with billionaire George Soros and told Solidarity, the labor union which had brought down the fall of Communism, and the Polish government that he "would be willing to become more involved to help address the deepening economic crisis."⁸

With Soros's financial backing and the promise of a \$1 billion loan from the IMF, Sachs persuaded the Poles to submit to the same sort of Friedmanite shock therapy that had wrecked economies throughout South America. As a result:

Poland became a textbook example of Friedman's crisis theory: the disorientation of rapid political change combined with the collective fear generated by an economic meltdown to make the promise of a quick and magical cure—however illusory—too seductive to turn down.⁹

Sachs would work with Soros in the looting which followed the break-up of the Soviet Union. Soros funded Sachs's travels throughout eastern Europe, and he was one of the main beneficiaries of Sachs's privatization efforts, buying up shares in Russia's phone system as early as 1994.¹⁰

Instead of the "momentary dislocations" which Sachs had predicted, Poland was thrown into a full-blown depression as the result of the shock his privatization policies delivered to the Polish economy. As in Chile under Pinochet, the removal of tariffs flooded Poland with cheap imports, wrecking the manufacturing sector and bringing about a 30 percent reduction in industrial production within two years of the introduction of Sachs's reforms. Unemployment increased in inverse proportion to the reduction of industrial production, reaching 25 percent by 1993 and hovering at around 20 percent thereafter.¹¹ Poverty increased with unemployment. In 1989, after a decade long struggle with Communism, 15 percent of Poland's population lived below the poverty line. In 2003, after the benefit of 20-some years of capitalism, 59 percent of the Polish population lived in poverty. Eventually an anti-Capitalist reaction set in which undid much of what Sachs had wrought.

After orchestrating a *coup d'état* which deposed Mikhail Gorbachev, Boris Yeltsin dissolved the Soviet Union and invited Sachs to work his Friedmanite magic in Russia. Sachs was put in charge of Yeltsin's band of Chicago Boys and together they orchestrated a looting expedition of the likes of which the world had not seen since the Reformation. By the time it was over, 225,000 state owned companies would be auctioned off at pennies on the dollar of their real value. After Yeltsin opened the Russian economy to their predations, Chicago Boys like Stanley Fisher, who was managing director at the IMF at the time, and Lawrence Summers of the Clinton Administration and soon to be president of Harvard University, rushed in and sank their teeth deeply into the carcass of rich state owned companies.

Jeffrey Sachs and Shock Therapy

The value of those companies was transferred to a “clique of nouveaux billionnaires” who came to be known as “the oligarchs.”¹² The oligarchs then teamed up with the Chicago Boys and “stripped the country of nearly everything of value, moving the enormous profits offshore at a rate of \$2 billion a month.”¹³ State-owned Russian companies were “privatized” at pennies on the dollar. Yukos, which now earns \$3 billion a year in revenues, was sold off for \$309 million.

In order to carry out a looting expedition of this magnitude, Sachs had to enlist the help of his employer at the time, Harvard University:

In the fall of 1992, US AID awarded a \$2.1 million contract to the Harvard Institute for International Development, which sent teams of young lawyers and economists to shadow the Gaidar team. In May 1995, Harvard named Sachs director of the Harvard Institute for International Development, which meant that he played two roles in Russia’s reform period: he began as a freelance advisor to Yeltsin, then moved on to overseeing Harvard’s large Russia outpost, funded by the US government.¹⁴

Eventually the looting of the assets of the former Soviet Union which took place under Harvard’s auspices became so flagrant that the State Department took notice and claimed that both economics professor Andrei Schleifer, the head of Harvard’s Russian Project, and his assistant Jonathan Hay, had violated Harvard’s USAID contract. Eventually, the US District Court in Boston found that Harvard’s professors had “conspired to defraud the United States,” and Harvard ended up settling the case against it by paying a fine of \$26.5 million.

By 1999 Sachs had destroyed the Russian economy, but by that time he had failed upward once again along with co-conspirator Lawrence Summers, who had been dismissed from Harvard after that university had to pay the largest fine in its history for the part it played in the looting of Russia. But by 1999, Summers had failed upward as well, appearing on the cover of *Time* magazine along with the two other Jewish economic geniuses who were now claiming that the repeal of Glass-Steagall would bring about unprecedented prosperity. Summers’s involvement in the looting of Russia combined with Sachs’s collaboration with Soros, combined with Friedmanite economics during his tenure in Russia, combined with the ethnic identity of the overwhelming majority of the billionaire oligarchs who profited the most from Sachs’ privatization scheme all lead to the undeniable, if unhappy conclusion that the looting of Russia was a Jewish operation from start to finish. Klein bemoans the fact that the Polish Law and Justice Party blamed Poland’s woes on “gays, Jews, feminists, foreigners, Communists,”¹⁵ but does little to refute their claim. Sachs, who left Harvard in 2002 sadder but wiser, now disavows shock therapy in favor of aid to undeveloped countries.

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Iceland and the Credit Default Swap

In 2005 the Icelandic government, taking its cue from their forebears, the Viking looters, decided to get into international finance in a big way when they “appointed a committee to draft policy proposals with the objective of turning Iceland into a new international finance center.”¹ The dream became a reality when the son of a fishmonger by the name of Sigurdur Einarsson, created Kaupthing, the bank that was destined to become “the Goldman Sachs of Iceland”² before it went belly-up as a result of the complicated and dangerous world of finance in the post-Glass-Steagall era. Einarsson created an American-style capitalist casino but without creating the Icelandic version of the Fed, which is to say, someone to bail him out and save him from the consequences of his own reckless behavior. Iceland’s financial sector was, as a result, a bubble destined to burst:

Once it was liberalized, the financial sector broke out of the political cage, and the older generation of bankers was pushed aside abruptly by a hungry new free market oriented and internationalist generation. Most of these people were born in the years between 1966 and 1976, and they had grown up with an antipathy for politics and regulation. They adopted the American-style investment-brokerage banking model that came to dominate the Icelandic banking sector at the turn of the 21st century.³

The financial Vikings of Iceland created a system that needed a lender of last resort, which is to say, a government to bail it out, but this is precisely what the Vikings, perhaps because of their genetic predisposition to looting, proved incapable of providing. Jonsson, however, is more American than he lets on because he accepts without reserve the underlying validity of the capitalist system, without seeing that failure is programmed into the system—hence, the need for a lender of last resort. The capitalist system is based on recklessness and looting on the one hand and government bail outs on the other, linked in a dialectical relationship to each other. The recklessness of modern capitalism is a function of the sure knowledge that the government is there to bail it out. Or as Jonsson puts it: “This assumption of state support unquestionably helped to fuel the Western banking bubble. . . .”⁴

Instead of engaging in sound financial practices, the modern banking industry relies on the state as its *deus ex machina* to rescue it from its own wretched excess. Instead of remaining chaste, the banking industry has decided to screw as many people as possible knowing that they can always get a shot of penicillin if they contract a venereal disease. That penicillin or

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that *deus ex machina* is known as the lender of last resort, which is there to insure liquidity in time of financial crisis. The hidden price that everyone pays for the liquidity which the looters need to do business is debasement of the currency; the system is based on constant systemic inflation, which has always been the bane of the working man ever since the Florentine oligarchy started paying wages in “white money,” i.e., a debased silver coinage. (The Florin, the famous Florentine gold coin used in foreign exchange, was never debased.)

Instead of blaming usury for the collapse of his country’s financial industry, Asgeir Jonsson claims that Iceland never had a lender of last resort and that Iceland’s banking industry would have survived if the Fed or its European equivalent had extended Iceland a line of credit. This is, of course, true as far as it goes, but it ignores the fact that capitalism is a system that is designed to fail and be bailed out by big government after the looters have cashed out of the latest bubble. What follows after the big players cash out is known as the suckers’ market, which is announced in Plutocrat organs like Newsweek, when it does articles on how “average Americans” are becoming millionaires by buying up the stock which the looters want to dump.

Iceland was caught in a systemic squeeze that was inevitable. The crisis began when Lehman Brothers went belly up, which meant that money was tight, which meant that the little pigs like the Vikings of Iceland could no longer get their front hooves in the credit trough. In other words, credit is always available, unless you really need it. During the inevitable contractions of the financial system, everything contracts at once, which means that equity disappears as collateral the minute you try to sell it. That meant that the line of credit/lender of last resort idea was about as plausible in Iceland as it would be for a man who had just put the deed of his house down on a number at the roulette table in one of the gambling boats in Michigan City.

The years between 1997 and 2007 were a golden decade for the Icelandic stock market and investment banking. But the same systemic flaws that were creating wealth were destined to take it away as well. At this time, keeping up with the Joneses of Icelandic business meant leveraged equity investments. The Icelanders were getting rich by taking out the equivalent of home equity loans:

The ICEX market cap was three times the GDP in mid-2007; wealth effects trickled down and took the form of record sales of champagne and luxury cars. In hindsight, this was the point when rational economic calculations came to a halt. The currency was overvalued, household income was unsustainable, and all valuations were skewed. In their ambition, Icelanders had overreached, setting themselves up for merciless punishment in 2008 in which 90 percent of the stock market value was wiped out.⁵

Iceland and the Credit Default Swap

Jon Asgeir Johannesson was a Viking who started out in retail, but before long he became:

- the prime example of the players who made and ultimately broke Iceland. He was a self-made businessman of humble beginnings. He came of age in the newly liberalized Icelandic economy and made something out of nothing with little more than wit, work, and daring.⁶

Johannenssen became the leveraged buy-out king of Iceland. He parlayed cheap foreign money into a domestic empire whose size rivaled the budget of the state. The secret of his success was the same old LBO story that had wrought so much havoc in America during the '80s: "If the chain [of stores which he bought] was not leveraged upon purchase, then it would simply take on more loans and pay its owner a dividend." Before long "the chain's management soon had overhanging debt that demanded continued success to keep up with it." It all worked for a while, like the man who jumped off a tall building and, asked while passing the 35th floor on the way down how things were going, responded, "so far so good." Or as Jonsson put it: "At its apex, Iceland was probably coming close to being the richest nation on earth in terms of per capita output. The Bubble was now a dirigible."⁷

The saga of Jon Asgeir Johannesson's rise and fall was one more mene tekel against usury. The fall of Kaupthing came about because "a substantial part of the equity being offered was debt financed."⁸ Like the homeowner in California who rushed out to buy an RV with the proceeds of an adjustable rate home equity loan, the young Vikings who would become the North Atlantic's leveraged buy-out kings, would do it all on borrowed money. According to Jonsson:

this phase of Icelandic development has a close parallel to changes in the American investment banking that followed the repeal of the Glass-Steagall Act in 1999. Traditionally, US deal brokers had been reluctant to hold risky assets on their balance sheet, endowed as they were with less capital and being less inclined to assume "principal" risk. After Glass-Steagall was overturned, brokers realized that they would need to commit their balance sheets to deals if they were to compete with giants such as Citicorp and JP Morgan Chase. Since they could not accept retail deposits, they enlarged their balance sheets via wholesale markets and funded illiquid assets with long-term debt and equity.⁹

The Vikings got rich, in other words, by gambling with poor people's money, which is precisely what the Glass-Steagall Act, which erected a wall of separation between investment banking and deposit/retail banking, was supposed to prevent.

The Church's ban on usury unleashed a storm of financial creativity in late medieval Europe. According to John Noonan, "The contracts of irregular deposit, insurance, annuity, and bills of exchange . . . are all essen-

tially medieval discoveries, and they are directly nurtured, if not fathered by the necessities of the usury theory.”¹⁰ The fact that usury was a sin which could deprive a man of eternal salvation led to “detailed rational exploration”¹¹ of economic issues. This exploration provided the basis for the modern economy. The problem got articulated in the 300-year period which began in 1150, right around the time that the Crusades created a demand for more sophisticated financial instruments, and it ended in 1450, when St. Antonino of Florence gave the fullest exposition of the Scholastic position.

What followed was either the solution to the problem or a capitulation to the same forces the Church sought to curb—depending, of course, on your point of view. John Noonan claims that Church teaching changed at some point between 1450 and 1550, but, since the Church has never said that usury was not a sin, it would be more accurate to say that the Church never got around to answering the questions that she herself had raised. This was the case because of internal and external reasons. To begin with, we are dealing with an extremely complicated issue, one that caused casuists, moralists, and confessors to throw up their hands in despair when confronted in the confessional. But there were extrinsic reasons for this lack of closure as well. After the unity of Christendom was shattered by the Protestant revolt in 1517 and the looters began seizing Church property, the Church lacked the police power to enforce the law. Conversely, the looters now had governments on their side, and the loot of the Church at their disposal to pursue an economic path unhindered by moral considerations.

St. Thomas Aquinas condemned usury because:

it is manifest that he sells separately the use of the money and the very substance of money. The use of money, however, as it is said, is no other than its substance: when therefore he sells that which is not or he sells the same thing twice, to wit, the money itself, whose use is its consumption; and this is manifestly against the nature of natural justice.¹²

Writing almost two centuries later, St. Bernardine confronted “the capitalistic activity which characterized the economic life of the northern Italian cities” by citing Joannes Andreae, who claimed that “that fungibles [i.e., money] should not increase beyond their determined value.” More importantly for our purposes, “St. Bernardine repeats Andreae’s reasoning upon the argument that ownership passes in a loan.”¹³

The crucial issue is risk. All scholastic thinkers were of one mind in declaring that if the investor shares the risk, there is no usury. Conversely, St. Bernardine “considers it immoral to profit after ownership has been transferred.”¹⁴ The usurer, in other words, wanted it both ways. He wanted to give up his money but he also wanted a guaranteed return on money he no longer possessed, and he wanted all of the risk assumed by the borrower.

The alleged elimination of risk was the great achievement of the Amer-

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ican financial system and the bubble economy of the late 1990s. The elimination of risk made the Glass-Steagall Act unnecessary, and once America showed the way, the rest of the world, which is to say places like Iceland, followed. The elimination of risk, as symbolized by the repeal of Glass-Steagall was a lot like Francis Fukuyama's contemporaneous "end of history" in that it proved to be a dangerous illusion, especially for people who wanted to act like American plutocrats without the protections for their recklessness with which they had surrounded themselves:

Once it was embroiled in the worldwide investment bubble that grew in the late 1990s, the lack of institutional memory allowed all participants, bankers and government officials alike, fundamentally to underestimate systemic risk.¹⁵

"Early on March 30, 2006," Jonsson tells us, "about 30 credit investors paid a visit to Kaupthing's headquarters in Reykjavik." If the Vikings were hoping for praise, they were in for a rude awakening. "This is not a bank but a hedge fund!" exclaimed one gentleman. "And by the way, where will you fund yourselves in the future?" Jonsson tells us that "No one missed the dark undertone of that morning."¹⁶

What he failed to tell us is that the Vikings had run into a more powerful group of looters. The issue was technological. It was as if the Vikings had waded ashore in 9th century England only to discover that the natives had set up a series of machine gun nests in the tree line just beyond the beach. The Vikings jumped out of their dragon boats screaming like banshees and brandishing their battle axes only to be mowed down by a withering burst of machine gun fire. The technological advance which had similarly withering effect on Viking bravado in 2006 was known as the credit default swap.

Iceland's precarious situation was largely the result of the J.P. Morgan firm's invention nine years earlier of a particular kind of derivative contract which Warren Buffet would later call "financial weapons of mass destruction."¹⁷ The credit default swap allowed the big looters from New York to take out an insurance policy on the Icelandic financial house and then burn it down. Or, as Jonsson put it, the CDS allowed the looters from New York to "express their bearishness by taking short positions against Icelandic banks. This was the so-called credit default swap; as it was popularized, it became the red flag that drew international attention to Iceland and set the 2006 crisis in motion."¹⁸ The term was intentionally deceptive and the purpose of the deception was to disguise the fact that the CDS was a form of insurance. The looters wanted to disguise this because insurance was subject to government regulation that the looters wanted to avoid.

Why the New York looters wanted to avoid regulation became apparent early on. A credit default swap is the equivalent of insuring your neighbor's home and then burning it down to collect the insurance money. Actually,

the situation is much worse than that. As Jonsson points out:

If the conventional insurance market operated in the same, unregulated manner, it would be possible for one—or many—persons to insure a house that they do not own. Thus the claim on the insurance company would be a multiple of the actual worth of the house and, should it be burned down, all the insurers would be able to pocket a sizable gain.¹⁹

The CDS, in other words, creates “a convenient way of shorting bonds and make[s] it possible to build up a volume of contracts that far exceed the value of the bond in question, but they also create a perverse incentive when many parties stand to gain from a company’s default.”²⁰

In addition to creating a “perverse incentive,” the credit default swap creates the economic version of the self-fulfilling prophecy:

A large widening in the CDS spread thus prices a bank out of the funding markets, drains its liquidity, and erodes its confidence to the extent that a failure can easily become a self-fulfilling prophecy. A CDS spread widening, perhaps as a result of speculation, is a modern version of a bank run in the wholesale financial markets. Shorting in the CDS market of a respective company can be compounded by a shorting of its stock to double-down the negative impact on its market confidence. On small, open economies, a third front of attack can be opened by shorting the domestic currency, since depreciation will erode confidence by creating turbulence in the financial system, with rising inflation and ballooning of currency-linked debt.²¹

As of early 2006, the New York looters, i.e., the hedge fund managers who had been monitoring the CDS spreads, had decided that Iceland was, in Jonsson’s words, “a sitting duck.”²² Like the wolves that had an uncanny sense of picking out the weakest deer in the herd, the hedge funds moved in for the kill.

In spite of what John Noonan wrote in 1957, the issue in 2006, as well as 600 years earlier, was risk, which is another way of saying that the issue was usury, because avoidance of risk and usury are, from a financial perspective, two sides of the same coin. St. Bernardine insisted on “the principle that where an investment of any kind is made whose risk is not borne by the investor, there is usury.”²³ He stated as an axiom, “the thing perishes to the owner.” Riskless investment (which is precisely what a credit default swap hopes to insure) is, as Iceland learned the hard way, another word for usury, which invariably leads to the ruin of those who fall into its clutches. The Church never disapproved of any financial arrangement in which the lender shared the risk of the venture. That was known as a partnership.

What arose in Italy during the course of the late Middle Ages was precisely the desire for “riskless investment” that engendered the credit default swap at J. P. Morgan in 1997. St. Bernardine made it clear that: “A deposit with an exchange banker or merchant at a fixed rate is usury. In particular,

if a widow deposits with a merchant with the agreement that her capital be safe and that she get half the profit, she sins mortally."²⁴

Writing a generation later, St. Antonino of Florence concurred. The "depositum," which is to say, a savings account, was "a widely used fraud of the leisured classes with surplus funds to invest." As he says in his own words, "and [even] though they call this a deposit, it is clearly usury" because "a true deposit stands to the peril of the depositor, not to that of the depositary."²⁵

The church approved of insurance, of course, especially as a means of securing risk in maritime commerce. St. Antonino defended insurance as "the rendering of a service for a price." As a result, "property insurance, in which an owner for a fee transferred the risks of his property to an insurer, had become familiar to all the commercial cities of Italy" by the end of the 14th century.²⁶ By now, it should be obvious that selling risk, a practice which found Church approval, did not eliminate risk, any more than a piece of paper could eliminate a storm at sea, the situation with maritime insurance. But usury eliminated risk dishonestly, which is to say, it eliminated risk to the lender, the stronger partner in the transaction. Usury, in other words, allowed the strong to take advantage of the weak in a way that made it a sin against both justice and charity.

The fact that insurance of property was universally accepted by scholastic theologians created problems because eventually insurance became the device which allowed usury in through the back door, via the triple contract, which the Church never approved. By the time Lessius and the Jesuits approved the triple contract during the latter part of the 16th century, insurance had become another word for riskless investment, which meant that it had become usury. Noonan cites Lessius as the typical example of the "steady growth in the amount of profit on riskless capital considered licit by the theologians" of the 16th century.²⁷

True to the hermeneutic he used to undermine the Church's teaching on contraception seven years after his book on usury appeared, Noonan claimed that the theologians of the 16th century were involved in an "intricate analysis" whose ultimate purpose was "justifying commercial credit," but Peter Ballerini, who brought out a new edition of the *Summa Theologiae* of St. Antonino in 1740 rearticulated the same principle that St. Antonino used to indict the rentier class of capitalistic Florence, namely, "when the risk is removed in the insured partnership, the investor loses all title to compensation. . . . When the capitalist gets fixed or riskless return, the contract becomes a loan,"²⁸ and if he takes interest on that loan, he commits the sin of usury.

Five years later, Pope Benedict XVI issued his encyclical *Vix pervenit*, in which the Church once again reasserted the traditional position and

condemned usury, defined as any interest taken on a loan, as sinful: "It is certainly no excuse to say that the profit on a loan is moderate, or that the loan is to a rich man or to be used for production purposes." However, in this encyclical, Benedict indicated that "it cannot be denied that there are extrinsic titles by which something beyond the principal may be demanded on a loan, and there are also licit contracts, distinct from a loan, by which money may be profitably employed."²⁹

At this point the pope throws up his hands in frustration and admits that the ability to distinguish between intrinsic titles, which are sinful, and extrinsic titles, which are not, is above his pay grade, and put the issue into the hands of confessors, who can deal with the complexities of the usury issue on a case by case basis. That is essentially where the *status questionis* has remained ever since.

In the meantime, confessors in cities like Augsburg, where the Fuggers had succeeded the Medicis as bankers to the Holy See, capitulated to pressure, which often included the threat of jail time, to justify the triple contract, which was, at least according to some of the Jesuits there, usury under the guise of insurance. As Noonan puts it, "The moralists' acceptance of the [triple] contract meant the practical exclusion of the old usury theory from business finance."³⁰ There were holdouts—Molina implied that the triple contract was "merely a roundabout way of legitimating *lucrum cessans*"—but over the long haul:

Acceptance of the [triple] contract meant the definitive rejection of the theses that any temporary, riskless transfer of property was usury; that the incidence of risk was the criterion of ownership; that money was sterile and could not bring a reward to itself. . . . The triple contract established definitively that a riskless transfer need not be usury; it destroyed the use of risk as the index of ownership by the usury theorists; and it made dominant for usury theory the concept of capital which partnership analysis had always implied.³¹

Contrary to what Noonan claimed, "Catholic moral principles have not changed."³² Consumed by his desire to justify a change in the Church's teaching on contraception, Noonan mistakenly perceived an attempt on the part of "Catholic philosophers, theologians and jurists" to "refine the definition of usury and the circumstances where it exists,"³³ as a change in Church teaching, failing to see that "the Church has not, nor could it, revoke the principle that usury is wrong."³⁴ The position which Pope Benedict XIV articulated in *Vix Peruenit*:

remains the position of the Church down to this day. It is the last definitive papal document dedicated to the topic of usury, and its contents have never been officially retracted or rescinded. Since it summarized two thousand years of revelation and natural law reasoning, no more needed to be said. Yet, no further decisions on particular types of contracts and transactions were issued by the Holy See. Particular situations were left to experts on the ground and closer to

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the fact, and they were urged to proceed in prudence.³⁵

Recent popes, McCall claims:

have been careful to make clear that such policy should not be interpreted as an abandonment or nullification of the ancient principles of usury doctrine. Popes Leo XIII, St. Pius X, Pius XI, and Benedict XVI have all referred to the traditional usury doctrine in encyclicals, either by praising those who combat usury or condemning those who practice it.³⁶

Both Pope John Paul II and Pope Benedict XVI “continued to refer to the scourge of usury in audiences and other speeches.”³⁷ In *Caritas in Veritate*, Pope Benedict XVI’s contribution to the tradition of Catholic Social Teaching which began with *Rerum Novarum*, the pope claims that a reiteration of the Church’s teaching on usury:

is all the more necessary in these days when financial difficulties can become severe for many of the more vulnerable sectors of the population, who should be protected from the risk of usury and from despair. The weakest members of society should be helped to defend themselves against usury, just as poor peoples should be helped to derive real benefit from micro-credit, in order to discourage the exploitation that is possible in these two areas.³⁸

Even if the Catholic Church ‘has reminded the world that usury still exists as an injustice in our world,’³⁹ the relegation of usury questions to the private forum has not had negative consequences, one of which is “a decline in detailed pronouncements regarding the law of usury by Church authorities, in favor of mere general confirmations of the principle of its immorality.”⁴⁰ This silence in the public forum paved the way for the rise of exchange banking, which in turn paved the way for the meltdown in Iceland five centuries later. Jonsson sounds strangely medieval when he claims that the structural flaw in the debt-securitization market was the absence of risk:

We now know that the debt-securitization market contained a structural flaw that contributed mightily to the current financial and banking crises, especially in the United States: the ability to earn large fees from originating and securitizing loans, coupled with the lack of any residual liability, skewed originator’s incentives in favor of loan volume and return rather than quality. This was most evident in the use of the so-called sub-prime mortgages in structured credit, and it was this practice that, starting in 2006, sucked the Icelandic financial system into the brewing US credit bubble. When the bubble burst a year later, it was at first called the “sub-prime crisis.”⁴¹

Jonsson failed to understand that the elimination of risk is another word for usury, which is another word for the ability of the stronger partner in any transaction to exploit the weaker. This meant that the total elimination of risk meant an exponential increase in the power of the lender over the borrower, something that became apparent in August 2007, when

Iceland was rocked with its first significant liquidity crisis. Jonsson's analysis of this crisis makes its "systemic" nature apparent:

If the need arose, liquidating the whole system in an orderly fashion proved impossible. This, like much else, worked well until stock markets the world over found themselves in a systemic liquidity crisis after August 2007. Both the banks and the holding companies were rendered nearly illiquid by the shock. At the same time, the holding companies were monitored relentlessly by foreign short traders and hedge funds. These predators would jump on any rumor about an immediate sale of foreign holdings and short the company's main assets, effectively blocking its exit. Exista, for one, was a sitting duck in this game. Shorting its three main listed assets brought down the equity ratio and, the hedge funds hoped, would trigger a margin call and a forced sale. Which it eventually did.⁴²

The Icelandic financial empire was a house of cards. It was based on the approval of foreign banks who soon began to view the Vikings as upstart competitors threatening the system whose cheap money the Vikings needed to survive. Once the word got out, everything happened at once: "The inflated sheets crumpled as soon as the foreign banks withdrew their support in response to the crisis inside the international financial markets. Their sheer weight was almost enough to crush the banks."⁴³

The house of cards was based on debt, and debt was based on usury, which is by its nature predatory. "Too much debt was programmed into the leveraged buyouts that were the basis of Iceland's newfound prosperity. . . . The Icelandic bankers' . . . biggest fault was a willingness to accept equity as collateral."⁴⁴ The Vikings were doomed to learn that he who lives by the debt sword dies by the debt sword.

On the night of January 31, 2008, Jonsson and a group of Kaupthing traders and analysts met a group of hedge fund managers from Merrill Lynch and Bear Stearns who were on a junket to scout out investment possibilities. The meeting at the bar of 101, one of Reykjavik's trendiest hotels, quickly turned ugly. The New York looters, who had been drinking heavily, "were a contemptuous lot who were convinced that they had landed in a country full of rubes."⁴⁵ But the worst was yet to come, when Joe, who looked like a "New York cop," informed the Vikings that "All the people in this party are shorting Iceland, except me." The New York looters had decided to take down Iceland. It didn't matter "how developed, sophisticated or rich anyone was if they were not liquid in a time of crisis." Everyone knew that there was no lender of last resort willing to save Iceland. Secure in that knowledge, the hedge funds moved in for the kill: "The CDS spread, which had been about 50 basis points above the Libor in August, reached 200 points by the year's end. This metric helped distinguish Iceland as the weak deer in the herd, which brought the hedge funds in for the kill in 2008."⁴⁶

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Frozen out of the money markets, the Vikings decided to get into retail banking, in particular, internet banking in England and Holland. Icesave, the internet banking operation that the Vikings created to get the money the big central banks denied them, quickly accumulated roughly \$12 billion in deposits. At this point the New York looters joined forces with their English counterparts and started spreading false reports about the stability of Iceland's banks. On March 30, 2008, two UK papers ran virtually identical articles questioning the stability of Icesave. Jonsson later found out that "a number of 'helpful' hedge funds had voluntarily provided the press with information about Icelandic banks."⁴⁷

By now the strategy was clear, the hedge funds wanted to create a run on the bank and make money on their CDSs. On March 28, David Oddsson claimed that "unscrupulous dealers . . . have decided to make a last stab at breaking down the Icelandic financial system"⁴⁸ and called for an international investigation. Shortly thereafter, Iceland's central bank learned that the three major central banks in the Western world had hung Iceland out to dry. There would be no lender of last resort for Iceland. Too many powerful people stood to earn too much money if Iceland went down.

Iceland then attempted to solve the crisis by selling off its assets, but as soon as she tried to deleverage, Iceland found that "selling assets at steep discounts . . . cut into their equity positions and broke covenants on existing bond issues."⁴⁹ The issue was systemic. As soon as the Vikings needed to sell, the value of their assets disappeared and their debts became un-repayable. With their credit lines cut off and no lender of last resort in sight, Iceland was not too big to fail. Then in September, Lehman Brothers joined the not-too-big-to-fail club and precipitated another more severe liquidity crisis, and this time, Icesave, whose depositors could bank by computer 24 hours a day seven days a week, faced the prospect of a real run on the bank.

On the morning of October 18, Chancellor of the Exchequer Alastair Darling announced on BBC Radio that: "The Icelandic government, believe it or not, has told me yesterday, they have no intention of honoring their obligations here."⁵⁰ At this point Gordon Brown, England's prime minister, entered the picture. At 9:15 of the same morning, Brown announced that he was "taking legal action against the Icelandic authorities to recover the money lost to people who deposited in UK branches of its banks."⁵¹

Depending on who you talk to, Brown was concerned about the safety of English savings deposits in Icesave accounts or acting as an agent of England's retail banking industry and determined to eliminate an unwelcome competitor. (According to Jonsson, "Rumor had it that the Bank of England and the European Central Bank had decided to open lines to Iceland at first, but changed course after heavy lobbying by their own domestic banks, which were infuriated by the online deposit gathering."⁵²) Either

way, after Chancellor of the Exchequer Alastair Darling failed to get reinsurance from David Oddsson that he, as head of the Central Bank of Iceland, would guarantee English deposits, Brown made the unprecedented financial move of declaring that Iceland was a “terrorist” nation and seized its assets. At this point economic activity ceased entirely in Iceland:

The nation’s international payment system collapsed. Funds sent to other countries were held up at some banks, or simply disappeared. Money could not be sent outside the island. Most banks simply refused either to send or to receive Icelandic payments. . . . All at once, everything Icelandic has become toxic, untouchable, banished to a place outside the world of business.⁵³

Iceland has been trying to dig itself out from underneath the financial rubble ever since. During the crisis in the fall of 2008, Icelanders who were abroad learned that their credit cards no longer worked. Before long, this nation of 300,000 people learned that Icesave’s exposure in England and Holland stood at about \$12 billion, an amount equal to 60 percent of Iceland’s Gross Domestic Product. When the Icelandic krona tanked in October, “the ratio ballooned to 80 percent.”⁵⁴ Before long, the media in Iceland were comparing Iceland’s situation to the ruinous reparations payments that the Germans were forced to pay after World War I, which amounted to 85 percent of the German GNP. In the end, Iceland did not bail out its banks. The foreigners lost their money, but the Icelanders were spared the fate of the Irish, whose government imposed austerity to make sure the usurers go their money.

Endnotes

- 1 Asgeir Jonsson, *Why Iceland? How one of the World's smallest countries became the Meltdown's biggest Casualty* (New York: McGraw-Hill, 2009), p. 138.
- 2 Jonsson, p. 33.
- 3 Jonsson, p. 30.
- 4 Jonsson, p. 207.
- 5 Jonsson, p. 89.
- 6 Jonsson, p. 103.
- 7 Jonsson, p. 104.
- 8 Jonsson, p. 53.
- 9 Jonsson, p. 55.
- 10 John T. Noonan, Jr., *The Scholastic Analysis of Usury* (Cambridge, MA: Harvard University Press, 1957), p. 2.
- 11 Noonan, p. 3.
- 12 Noonan, p. 54.
- 13 Noonan, p. 71.
- 14 Noonan, p. 72.
- 15 Jonsson, p. 31.
- 16 Jonsson, p. 58.
- 17 Jonsson, p. 62.
- 18 Jonsson, p. 61.
- 19 Jonsson, p. 62.
- 20 Ibid.
- 21 Ibid.
- 22 Jonsson, p. 63.
- 23 Noonan, p. 80. Calibration of the limited title to reward which risk deserves is what should have been developing since the time of St. Bernardine, but the discussion was hampered (if not abandoned) by the widespread acceptance of usury which followed the Reformation.
- 24 Noonan, p. 174.
- 25 Ibid.
- 26 Noonan, p. 201.
- 27 Noonan, p. 224. As Garrick Small puts it, "Insurance is licit so far as it acts to spread risk. The result for the person who suffers loss should be to return him to a similar position after the loss as before it. The cost to the community should be no more than the sum of all the community's 'losses' plus the necessary administration costs of running the service. When it results in a (significant and robust) profit to either the insured person or the company that provides it, it is usury. This distinction was not apparent in the era of the triple contract. No one seems to have bothered to explore it since."
- 28 Noonan, p. 227.

29 Noonan, p. 357.

30 Noonan, p. 229.

31 Ibid.

32 Brian M. McCall, *The Church and the Usurers: Unprofitable Lending for the Modern Economy* (Ave Maria, FL: Sapientia Press at Ave Maria University: 2013), p. 10.

33 McCall, p. 11.

34 Ibid.

35 McCall, pp. 130-1.

36 McCall, p. 134.

37 Ibid.

38 McCall, p. 134n, Benedict XVI, *Caritas in Veritate*, encyclical letter on Integral Human Development in Charity and Truth, June 29, 2009, http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html, #65.

39 McCall, p. 135.

40 McCall, p. 15.

41 Jonsson, p. 90.

42 Jonsson, p. 96.

43 Jonsson, p. 97.

44 Jonsson, p. 109.

45 Jonsson, p. 114.

46 Jonsson, p. 116.

47 Jonsson, p. 118.

48 Ibid.

49 Jonsson, p. 123.

50 Jonsson, p. 184.

51 Ibid.

52 Jonsson, p. 137.

53 Jonsson, p. 187.

54 Jonsson, p. 176.

Chapter One Hundred One

The Collapse of 2008

By the time Milton Friedman died in November 2006, the richest 2 percent of the world owned more than half of global household wealth, and the CEO who made 43 times what the average worker made in 1980 earned 411 times as much in 2005. One year later, the real estate bubble, which had replaced the dot.com bubble of the '90s, burst, ushering in the subprime crisis of 2008. Nassim Taleb, who explained how the Russian default of 1999 led to the collapse of Long Term Capital Management and the Black-Scholes equation upon which it was based, was certainly skeptical about algorithms predicting the future, but he showed just as convincingly that the global collapse of 2008 "was far from being an inherently unpredictable event." In 2006, Taleb explained how the crisis would begin: mortgage debt had become so overexpanded "the slightest hiccup" would cause the crash.

In his post-mortem on global capitalism, John Gray claims that "the de-regulation of banking," in particular, the repeal of Glass-Steagall, "blew up the American financial system."² Anthony Santelli is more specific: "The root cause" of the economic crisis that began in 2008 "is usury."³ According to Santelli, St. Thomas Aquinas predicted the systemic financial crisis which followed the subprime mortgage collapse when he claimed that "in a society where unjust exchange transactions dominate, eventually all exchanges will cease."⁴ The ultimate cause of the 2008 crisis was "the widespread abandonment of usury doctrine by American law,"⁵ especially in the period following the monetary deregulation act of 1980. The result of that abandonment was the proliferation of the "unjust loan transactions"⁶ which constitute "the root of the problem."

Sensing that the manufacturing era had ended in the United States, the people with assets devoted all of their resources to usury, and Wall Street obliged by coming up with ever more sophisticated instruments to allow people to get into debt. Their only equity was the apparent price of the house, which existed as an illusion as a result of the bubble market and usury.

The final stage in this trajectory of economic decline was known as the subprime mortgage. During the 1980s, Solomon Brothers, under the tutelage of Lou Ranieri, had perfected the securitization of virtually all of the legitimate mortgages in the United States. The next frontier, therefore, was the securitization of the illegitimate mortgages. As the term "Ninja" mortgage (i.e., "no income, no job") indicated, no one seriously believed that the

people who took out these loans could ever pay them back, but when they got securitized and mixed in with legitimate mortgages, then certified as Triple A by ratings agencies like Moody's and sold to returns' hungry pension funds who bought them with no questions asked, it looked as if everything was fine and a new milestone of financial wizardry had been reached.

Until the defaults started to roll in and the pension funds panicked and the equivalent of a run on the bank started and the whole paper empire collapsed and threatened to bring the world economic system down with it. Nothing expresses the fruit of this abandonment of the traditional position on usury better than the financial figures: "From 1994 to 2005, the aggregate amount of all subprime mortgage originations," which is to say money lent to people who were considered unlikely to pay the loan back, "grew from \$35 billion to \$665 billion."⁸

Confronted with the contradictory commands of the Volcker era—i.e., you must consume more while earning less—the hapless American consumer resolved the contradiction by borrowing more and more money, as the American economy devolved more and more into a huge engine whose main product was debt. Between 1976 and 2006, mortgage debt increased from \$517.0 billion to a staggering \$10.055 trillion.⁹ Like the manufacturing sector, the American consumer turned equity into debt by taking out a second mortgage on his house and then spending that money on consumer items. This transaction kept the economy going as long as the consumer could roll over his debts in light of increasing asset prices. That era ended in 2007 when home prices started to decrease in value and "borrowers were unable to sell or refinance their homes before the teaser rates expired and their interest rates substantially increased. As a result of the decreased home prices and resetting interest rates, many borrowers defaulted on their loans and were forced into foreclosure."¹⁰

Having learned his lesson from the Fed's inactivity during the crucial years following the stock market collapse of 1929, Fed Head Ben Bernanke stepped in and flooded the banks with money, a move known as quantitative easing and a major catastrophe was, for the moment at least, averted. Unfortunately, the Fed's intervention could not avert the debt deflation cycle, which happens whenever debts rise faster than assets:

Eventually and inevitably, when their debt, through compound interest, reached levels that warranted some reduced spending even with inflated asset prices, people decided to pull back on their spending and the economy came down like a house of cards, including asset prices. This was the root of the housing bust, which would have occurred eventually even if the bubble had not been blown up to the size that it was due to subprime lending.¹¹

As Irving Fisher had proven in 1933, the main cause of economic collapse is overindebtedness: "General economic equilibrium is disturbed by

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only the one factor of over-indebtedness.”³² When the housing bubble burst in 2007 and the stock market collapsed shortly thereafter, a huge amount of paper wealth simply disappeared. With nothing but paper collateral backing their debts, the consumer felt insecure and unable to sustain debt at the levels they had become accustomed to, but when everyone tried to liquidate and cut spending at the same time, the economy collapsed from lack of demand. As a result, “the cycle fed on itself into a depression.” The main cause of the overindebtedness which led to this crisis was “widespread abandonment of usury doctrine by American law.”³³ That abandonment began centuries ago, when England abandoned its usury laws in 1536 and 1571, but it accelerated out of control after Paul Volcker took over as head of the Federal Reserve in 1979: “The recent financial crisis that originated in the home buying market is a consequence of this abandonment. Although other factors certainly contributed to its breadth and expansion, unjust financial transactions are the root of the problem.”³⁴ The main cause of the current financial crisis is usury and the bubble pricing it engenders.

In light of what has happened since 2008, we need a new definition of capitalism. Sensitive to the new situation which the fall of communism brought about in the early 1990s, Pope John Paul II tried to define the term himself in *Centesimus Annus*, the encyclical celebrating the 100th anniversary of *Rerum Novarum*, the encyclical that launched modern Catholic social thought on economics. In his defense of post-2008 capitalism, Robert Sirico mentions *Centesimus Annus* repeatedly but he never cites the pope’s attempt to define the term. Taking note of the semantic issue surrounding the term “capitalism,” the pope attempted to answer the question of whether capitalism is “the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?”:

If by “capitalism” is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a “business economy,” “market economy” or simply “free economy.”

But if by “capitalism” is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.³⁵

Nine years after the publication of *Centesimus Annus*, with the repeal of Glass-Steagall in 1999, capitalism as practiced at the casino known as Wall Street became, without any shadow of a doubt, “a system in which

freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality.” That is why the market collapsed in 2008. Now in light of the crash of 2008 it’s time to define capitalism in terms of what it has become when all restraints holding it back from its penchant for wretched excess have been removed.

It’s also time to admit that we are going to get no help in this project from intellectual prostitutes at places like the Acton Institute, who feed at the troughs of the capitalist foundations and think tanks and produce economic fairy tales for the *goyim* to keep them in ignorance of what is really going on. Recklessly ignoring caveats like those made by the pope, Robert Sirico tries to resurrect the failed package of zombie ideas known as Capitalism by a series of rhetorical flourishes with no logical framework supporting them. Sirico gives his Economics for Dummies definition of Capitalism at the beginning of his book:

Capitalism offers wide ownership of property, fair and equal rules for all, strict adherence to the rules of ownership, opportunities for charity, and the wise use of resources. Everywhere it has really been tried, it has meant creativity, growth, abundance and, most of all, the economic application of the principle that every human being has dignity and should have that dignity respected. . . . And please don’t tell me the free market is a myth simply because it has never existed in a pure form anywhere.¹⁶

Sirico here sounds like the university Leftists who were so common in the ‘70s, except that they would say that the argument that communism failed, in say, North Korea was false because what got put into practice there (or in Russia or China) wasn’t “pure communism.” Similarly, Sirico tells us that:

Capitalism, rightly understood and pursued, has lifted untold millions out of abject poverty and allowed them to use skills and talents they would never have discovered, and to build opportunities their grandparents never dreamed were possible. The free economy is a dream worthy of our spiritual imagination.¹⁷

This particular form of intellectual sleight of hand makes capitalism synonymous with economic activity. The only thing that is not capitalism from this perspective is socialism. Reading Father Sirico’s book you will never learn that labor, as Adam Smith pointed out, is the source of wealth or that the purpose of economic activity is the good of the nation (not just a few wealthy individuals) or that Catholicism provides an alternative to Capitalism, because it is precisely these thoughts that Sirico is paid to suppress by wealthy benefactors like the Meijer, DeVos, Koch, and Prince families, most of whom belong to the Dutch Reformed churches of western Michigan.

Capitalism, according to Heinrich Pesch, is state sponsored usury and

the systematic contractual appropriation of all surplus value, which is another word for theft. Capitalism began with the theft of Church property; it began with the looting expedition known as the Reformation. Sirico writes that "Christian civilization built the most extensive network of care for the vulnerable and need the world had ever seen"¹⁸ without any indication that it was nascent capitalism which destroyed the monasteries and other religious institutions which made up this "network of care." R. H. Tawney makes this point in his *Religion and the Rise of Capitalism*. Tawney is, if anything, more eloquent than Max Weber in describing what actually happened in England at the birth of the capitalist era: "Lords, no longer petty sovereigns, but astute businessmen were leasing their demesnes to capitalist farmers, quick to grasp the profits to be won by sheep-grazing, and eager to clear away the network of communal restrictions which impeded its extension."¹⁹

The magnitude of what happened in England in the middle decades of the 16th century was comparable to the "privatization" which took place in Russia during the 1990s, and in the historical continuity which connects those two events we can come to the true definition of Capitalism. Far from being an expression of some vague "new sanctity," as Michael Novak claims, capitalism was always a form of looting. The only thing that changed over the 500 years of its history is the sophistication of the instruments which enable the theft.

Capitalism could not exist when the Church enforced the ban on usury. Once the police power enforcing that ban was disrupted by the Reformation, "Capital fell into the hands of ever fewer persons, and it turned into a force which came to control the entire economy of nations." Capitalism, in short, is usury at the expense of labor. Or as Pesch puts it: "capitalism represents simply a system of freedom to exact usury with the approval of the state"²⁰ or "a social system in which freedom for usury is more or less totally accepted in law."²¹ Capitalists, Ruhland continues, "are usurers in the broadest sense of the word." And then, to make matters still more precise, Ruhland defines usury as "every contractual appropriation of obvious surplus value."²² According to Ruhland, "Capitalism means the dominance over the nation economy by capitalists, which can only be understood in the historical sense. . . . Capitalism is the dominion over the national economy by the acquisitive interests of those who own capital."²³

Once we have a clear definition of Capitalism, the cure for the ills it causes becomes clearer as well. Father Heinrich Pesch, SJ, author of the *Lehrbuch der Nationaloekonomie* which was the inspiration behind Pius XI's encyclical *Quadragesimo Anno*, proposes a simple solution when he writes:

if the nature of capitalism is in the contractual appropriation of obvious surplus value, then the real cure of economic problems can only be achieved by cleansing the system of these contractual appropriations of surplus value. . . . Thus we can reduce our entire political program to these terms: Do away with freedom for usury which hides behind the proposition: 'Buy as cheaply as possible and sell at as high a price as possible' and do away with it by reintroducing value based on social costs, which may also be designated as value-based-on-equivalence.²⁴

Pesch ultimately resolves the semantic issue which Pope John Paul II raised in *Centesimus Annus* when he claims that "Capitalistic production will persist too in the future to the advantage of the nation. . . . However, we have to preserve our nation against 'capitalism.'" In other words, men of good will need to preserve an "economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector," but in doing so they will have to oppose "capitalism," which is to say, state-sponsored usury, because capitalism as usury is nothing more than the "contractual appropriation of obvious surplus value."²⁵ Men of good will are, therefore, called to oppose capitalism in the realm of theory as well as in the realm of praxis because capitalism represents an inversion of true economic order. As Pesch puts it: "We may not permit the acquisitive interest of those who own capital to dominate in the governance of economic life. The highest purpose of the national community organized in the form of a political state is the welfare of the entire nation."²⁶ Similarly, "the fulfillment of the economic purpose remains the highest and ultimate task of the national economic process. The private economy must fall in line with the national economy, and not make the latter subordinate to it."²⁷

Capitalism and Catholicism, far from being compatible, are antithetical. Capitalism is state-sponsored usury; Catholicism, the traditional foe of usury, believes in the priority of labor. There is no way to resolve this dichotomy. One system must prevail over the other. *Non datur tertius*.

Endnotes

- 1 John Gray, *False Dawn: the Delusions of Global Capitalism* (London: Granta, 2009), p. xvi.
- 2 Ibid.
- 3 Brian M. McCall, *The Church and the Usurers: Unprofitable Lending for the Modern Economy* (Ave Maria, FL: Sapientia Press at Ave Maria University: 2013), p. xi.
- 4 McCall, p. 145.
- 5 McCall, p. 146.
- 6 Ibid.
- 7 Ibid.
- 8 McCall, p. 147.
- 9 Ibid.
- 10 McCall, p. 149.
- 11 McCall, p. xii.
- 12 Irving Fisher, "The Debt-Deflation Theory of Great Depressions," *Econometrica* 1, no. 4 (1933): 337-357, <http://fraser.stlouisfed.org/docs/meltzer/fisdeb33.pdf>
- 13 McCall, p. 146.
- 14 McCall, p. 146.
- 15 John Paul II, *Centissimus Annus*, Encyclical letter on the hundredth anniversary of *Rerum Novarum*, May 1, 1991, http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centessimus-annus_en.html
- 16 Robert Sirico, *Defending the Free Market: the Moral Case for a Free Economy* (Washington, DC: Regnery Publishing, Inc. 2012), p. 6.
- 17 Ibid.
- 18 Sirico, *Defending*, p. 117.
- 19 R. H. Tawney, *Religion and the Rise of Capitalism: a Historical Study* (Holland Memorial Lectures, 1922) (Gloucester, Mass: Peter Smith, 1962), p.136.
- 20 Heinrich Pesch, *Lehrbuch der Nationaloekonomie/Teaching Guide to Economics*, Vol. 4, Book 2, (Lewiston, ME: The Edwin Mellen Press, 2003), Vol. 4, Book 2, p. 158.
- 21 Ibid.
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- 23 Ibid.
- 24 Pesch, *Lehrbuch*, Vol. 4, Book 2, p. 158.
- 25 Pesch, *Lehrbuch*, Vol. 4, Book 2, p. 157.
- 26 Pesch, *Lehrbuch*, Vol. 4, Book 2, p.161.
- 27 Pesch, *Lehrbuch*, Vol. 4, Book 2, p. 162.

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