

AMERICAN MONETARY INSTITUTE

PO BOX 601, VALATIE, NY 12184

Tel. 518-392-5387, email ami@taconic.net

<http://www.monetary.org>

Stephen Zarlenga, Director

Dedicated to the independent study of monetary history, theory, and reform

“Whoever controls the money system controls the society.”

A review of

The Web of Debt

by Ellen Hodgson Brown, J.D.

The Shocking Truth About Our Money System And How We Can Break Free

– Second edition revised and updated (Third Millennium Press) –

Reviewed by Jamie Walton, American Monetary Institute (AMI) researcher

Ellen Brown spins a captivating tale about our present money system, particularly for readers who were unaware that most of our money is created and controlled by the banking system, as a ‘debt’. Indeed, the book’s main value has been as an introduction to some of the problems with the debt-based money system, and some of the potential of monetary reform. **Brown certainly deserves credit for this.** However, through twists and turns, the book ends up promoting what could be an even stickier web of debt, as we’ll see below.

The storyline begins with a sweeping coverage of the turbulent period of political, economic and monetary debate arising from the spate of banking ‘panics’ and recessions experienced from the aftermath of the Civil War through the early 20th century. Various ‘Populist’ political movements with calls for monetary reform arose during this period of upheaval, but what emerged from the confusion was the Federal Reserve System, followed by the disaster of the ‘Great’ Depression. The following chapters go forwards and backwards through monetary history from the present Federal Reserve System to colonial America, medieval Britain and Europe, the ancient Middle East, and then back again, up to the early stages of the ‘sub-prime crisis’. This yo-yo time-traveling is disorienting, but it’s the ‘missing links’ that are the main cause for concern.

Brown’s shifting definitions of the problem

– and then a retreat away from a solution

The title of the book correctly suggests debt is a trap. Brown provides an adequate explanation of how the debt trap is set in this passage highlighting the essentially fraudulent nature of present banking conventions:

“When you lend someone your *own* money, your assets go down by the amount that the borrower’s assets go up. But when a *bank* lends *you* money, its assets go *up*. Its liabilities also go up, since its deposits are counted as liabilities; but the money isn’t really there. It is *simply* a liability – something that is owed back to the depositor. The bank turns your promise to pay into an asset and a liability at the same time, balancing its books without actually transferring any pre-existing money to you.

The spiraling debt trap that has subjected financially-strapped people to usurious interest charges for the use of something the lenders never had to lend is a fraud on the borrowers.” [p. 284*]

Brown is clearly saying here it is banks lending “the use of something the lenders never had to lend” which “is a fraud” because people are made to think they’re borrowing money that’s there to be lent.

Surprisingly then, Brown ends up wanting to enshrine this “fraud” by inserting it into the U.S. Constitution. Furthermore, Brown would enthrone the biggest Wall Street banks inside the U.S. Government to continue perpetrating it on the people.

Let’s track how Brown reaches her ‘conclusion’ proposing to protect the system that contains what she calls a “fraud” – the debt-based money system (also called a ‘debt-money’ or ‘credit-money’ system).

Earlier on, Brown admits the debt-based money system is unsustainable and can’t go on:

“We have reached the end of the line on the debt-money train and will have to consider some sort of paradigm shift if the economy is to survive.” [p. 199]

Readers might expect from this statement that Brown would conclude by proposing something to get us out of this dead-end system and into one that’s more just and sustainable. Instead Brown proposes to keep the same system in place and entrench it, rather than reform it. This is the opposite of a solution.

And this is despite Brown showing us she knows roughly what’s needed to get us out with this passage questioning the unjustifiable money-creating privilege presently usurped by the banking system:

“Wouldn’t it be cheaper and safer to give the power to create dollars to Congress itself, with full accountability and full disclosure to the public? ... It could just create the money in full view in an accountable way. The power to create money is given to Congress in the Constitution. ... the cheapest and most honest way to do it is by creating the money directly and then spending it on projects that ‘promote the general welfare.’” [p. 388/9]

These suggestions are close to what all serious monetary reformers advocate. **But instead of pursuing them any further, Brown almost immediately begins to retreat from this real reform.**

Finally, after hundreds of pages telling us how bad the debt-money system is, Brown turns around and starts ‘justifying’ the present unsustainable (and unjust) debt-based money system, telling us it:

“... would be sorely missed if banks could no longer engage in it.” [p. 403]

Brown completes her remarkable U-turn by rejecting what she’d just said is “the cheapest and most honest way” to create money in favor of keeping the system she earlier said had “reached the end of the line” and jumps to the ‘conclusion’ that we could somehow fix the problem by ‘nationalizing’ the banking business:

“What is wrong with the current system is not that money is advanced as credit against the borrower’s promise to repay but that the interest on this advance accrues to private banks that gave up nothing of their own to earn it. This problem could be rectified by turning the extension of credit over to a system of truly national banks ... authorized both to deal with deposits and to create credit-money with accounting entries, ... as an agent of Congress.” [p. 404]

Notice Brown has shifted her definition of the problem from the “fraud” itself to the interest on the “fraud”. She then asserts that taking interest on ‘loans’ of “*nothing*” would be okay if only “*national*” banks took it. In one paragraph, Brown redefines the problem and turns the “fraud” into her ‘solution’. But her flawed argument misses the point entirely: it turns our government into a banker, the ‘owner’ of our indebtedness, but does nothing to change the ill effects caused by a debt-based money system.

Here’s what Brown suggests as the first priority of a proposed political manifesto:

“The platform of a revamped Populist/Greenback/American Nationalist/Whig Party might include:

1. A bill to update the Constitutional provision that ‘Congress shall have the power to coin money’ so that it reads, ‘Congress shall have the power to create the national currency in all its forms, including not only coins and paper dollars but the nation’s credit issued as commercial loans.’” [p. 459]

This is absolutely unnecessary; Congress already has the constitutional power to create (“coin”) and issue money in any form (as all sovereign national legislatures do). Brown makes numerous references to this fact throughout the book, so why propose this absolutely unnecessary Constitutional amendment?

Notice Brown’s “update” seeks to insert the fraudulent practice of ‘lending’ what the lender doesn’t have to lend into the U.S. Constitution. This would bestow the ultimate endorsement upon the ultimate “fraud”.

And who would actually make these “commercial loans”? Brown suggests incorporating some of the biggest Wall Street banks like J.P. Morgan Chase (‘JPM’) and Citibank into the U.S. Government:

“JPM and Citibank have many branches and an extensive credit card system. ... If just these two banks were acquired by the government in receivership, they might be sufficient to service the depository, check clearing, and credit card needs of the citizenry.” [p. 422]

Throughout most of the book Brown rails against these big Wall Street banks, but then she wants to put them officially inside our nation’s government. Who would gain from this?

Brown’s plan to takeover (rescue?) the big banks to continue a “fraud” within the safety of government is totally wrong. Placing the “fraud” in government doesn’t make it right, but might make it harder to stop. Does Brown realize that her statements and conclusions are inconsistent, and that what she proposes leads to exactly the same things that she’s claiming to be opposed to?

Experience shows that *if* the issue of money is unduly affected by commercial incentives, *then*, over time, “commercial loans” (i.e., debt) will dominate over more direct methods of issue. So we’d be kept in exactly the same position we’re in now: within a totally unnecessary, ever-growing and impossible-to-pay debt trap.

Obviously the sensible action to take is to remove the “fraud” and debt and retain a healthy and competitive banking sector. **This is easily done with a law based on the existing provisions in the U.S. Constitution.**

But Brown avoids this obvious solution and instead advocates that our government gets into banking.

It seems incredible that Brown is now advocating what she’s described throughout most of the book as fraud, counterfeiting and Ponzi, pyramid or ‘smoke-and-mirrors’ schemes. Why? Perhaps the answer lies

in Brown's apparent confusion and/or fundamental misunderstandings about the nature of money and the role of government in society, and about monetary history and monetary reform.

Confusion about the nature of money

Brown's sweeping coverage of monetary history is inadequate. For example, the various experiences of classical Greece and Rome are not covered in her broad brush strokes of monetary history, except for a brief extract from Aristotle's profound understanding that money is essentially an abstract social and legal matter:

"Money exists not by nature but by law. [It acts] as a measure [that] makes goods commensurate and equates them ... There must then be a unit, and that fixed by agreement." [p. 60]

Unfortunately, in the very next paragraph, Brown corrupts this proper concept of money by confusing it with distinctly different and contradictory ideas:

"[Money] is simply a 'tally', something representing units of value that can be traded in the market, a receipt for goods or services that can legally be tendered for other goods or services." [p. 61]

And later, at the incredible 'turning-point' in the book (the U-turn we noted in the section above):

"[Money] is simply 'credit' – an advance against the borrower's promise to repay. Credit originates with that promise, not with someone else's deposit of something valuable in the bank." [p. 403/4]

By corrupting Aristotle's definition of money in her conflicting descriptions of money, Brown has erased the concept of money from her book. Combining contradictory concepts of commodities, receipts and credits in the place of money is totally unacceptable in any book purporting to educate readers about money, because they're the *very same* conceptual errors that allowed some businesses to become fraudulent money-creators.

Unfortunately (and perhaps surprisingly, given the title of the book), Brown settles on mis-defining money as (bank) 'credit': a promise to pay (money) in the future; a debt. By holding this view, Brown ironically attaches herself to an inescapable 'web of debt', because any money used to pay old debt incurs new debt.

Brown's fantasy view of 'promise-to-pay-money' type of money is taken to absurd lengths when she suggests that a national monetary system would be able to operate on the basis of:

"each person determining for himself how much 'money' he wanted to create ..." [p. 412]

While today we mainly use bank 'credit' for money, this is only because the **law** makes it acceptable for paying debts and taxes, and makes bank 'loans' legally enforceable. This goes to show that what constitutes money is determined by law, so it is entirely within our democratic power to make money be what we want it to be.

Confusion about the role of government

Of equal concern is Brown's disregard for the proper function of government. Brown correctly states that providing the nation with its money supply is a sovereign duty which, under the U.S. Constitution, is vested with Congress. But she goes on to argue this means the U.S. Government has to run the banking business. This erroneous assertion is repeated and 'supported' with numerous misinterpretations of

historical events. For example, Brown quotes the famous “Cross of Gold” speech by William Jennings Bryan:

“... that *the issue of money is a function of the government and that banks should go out of the governing business* ... [W]hen we have restored the money of the Constitution, all other necessary reforms will be possible ... until that is done there is no reform that can be accomplished.” [p. 393]

But then she misrepresents this quote, twisting it around in a way that suits her ‘conclusion’:

“As Bryan said, banking *is* the government’s business, by Constitutional mandate. At least, that part of banking is the government’s business that involves creating new money.” [p. 394]

Bryan did not say banking is the government’s business, he said issuing money is a function of government. There is no “Constitutional mandate” regarding banking, the Constitution doesn’t even mention banking.

Notice Brown makes the assumption that money-creation and banking automatically go together. But they don’t have to. The continuous failure of banking to produce good results clearly shows it’s a terrible way to provide the economy with money. We have to change this before things can get better.

Brown’s plan to get the government to run a giant banking monopoly goes in exactly the opposite direction.

Ignoring the lessons of history

The book ends by calling for a ‘Populist’ revival. Let’s look at what happened to the ‘Populist’ movements (and to William Jennings Bryan) in the mid-1890s.

The populists’ calls for more government-issued debt-free money (‘Greenbacks’) had public support, but a new call to re-monetize silver (it was demonetized by law in 1873/74) split populists over which direction to take. Widely-circulated publications on the silver issue drew attention away from Greenbacks. The call for re-monetizing silver acted as a diversion. William Jennings Bryan was distracted from the Greenback issue by being obliged to pay attention to the silver diversion during his 1896 Presidential campaign (he lost).

It’s important to note that the silver diversion didn’t seek actually to change the existing monetary system, which was in fact a debt-based money system, using the ‘gold-standard’ ruse as a ‘reserve base’. Whereas more debt-free ‘Greenbacks’ put into circulation would have alleviated the harsh conditions suffered by the people during the ‘debate’, as a severe long-run debt-deflation was financially ruining farms and businesses.

One lesson that can be learned from this history? – avoid diversions.

Disappointing methodology

While Brown makes some good points very well, these are blighted with a variety of sensational claims and the usual ‘conspiracy theories’ and ‘urban myths’ (which Brown often sourced from websites trying to scare people into buying gold). As well as the repeated confusion and blending of different ideas (as discussed above), another annoying pattern is the putting together of historical and contemporary figures and other authors with differing views (even in the same sentence) as if they’re ‘on the same page’, when they’re not. This may give a very misleading impression to readers who are unaware of these factors.

Brown acknowledges she had a lot of help with this book, so maybe the unfortunate mistakes in this book are a case of her trying to please everyone, by attempting to show a ‘balance’ between their differing views. Also, judging from many of the sources used, it may be that some questionable or very “controversial” influences ‘rubbed-off’ during her research, and so became ‘infused’ into the narrative. One example - there are over 50 citations of sources associated with the Lyndon LaRouche ‘network’ infused throughout the book. Brown writes: “Lyndon Larouche, a controversial political figure who has inspired a devoted following and a large body of research.” [p. 193].

No matter what the reason (nobody’s a mind-reader), the result is the book reads much like an exercise in ‘arguing in the alternative’: arguing all sides of a question and allowing all but one to be conceded (a tactic lawyers use to get juries to arrive at the verdict prescribed, by heading-off alternative avenues of thought).

It would be neglectful not also to mention some general points about the style of writing in this book. On first reading, the initial impression of the book is good. It’s only when it is carefully re-read, and sources and facts are checked, that inconsistencies are detected and serious questions arise. But not many people would do this background work or be aware of the actual monetary facts.

Disappointing conclusion

In summary, the book is very disappointing (from a monetary reform perspective) because Brown’s conclusion proposes a non-solution: to keep the unsupportable debt-based system in place and consolidate it by embedding the fraudulent ‘debt-money’ accounting mechanism within the apparatus of government.

That’s not effective reform and certainly not a “paradigm shift”. Instead, Brown proposes to entrench the *very same* system she’s been “shocking” us with. This is not “how we can break free” – it’s the same trap.

This is the same pattern that we observe so many times in numerous publications on monetary matters: identifying the problems (effects) reasonably accurately, but not identifying the cause accurately, and so not offering a permanent solution that prevents the problems from continuing or recurring.

Brown fails to recognize it makes absolutely no difference who runs a faulty system: if the system is faulty, then the same undesirable results will keep on happening. All serious monetary reformers should know this.

In addition, her calls for unnecessary Constitutional changes and Government takeovers of banks could act as ‘poison pills’ to any reform. This raises questions about the validity of her proposals.

Historic opportunity

We now have an historic opportunity for real reform in this latest ‘recession’ because the deficiencies in the debt-money system are painfully obvious to millions. We know how similar opportunities were missed by previous generations. Now we have the benefit of hindsight we can avoid making the same mistakes again.

Brown is undoubtedly a very skilled professional writer (having written a number of books on alternative health remedies and diets), and she’s done a very useful job raising awareness about the way the banking system presently controls our money supply, but while this is an important first step, there’s little point taking it without having a solution that fundamentally addresses the systemic problems. Unfortunately, this book doesn’t live up to its promises because it’s conclusion still leaves us all stuck in a web of debt. Breaking free from that web requires more than merely changing spiders – we have to break the web.

It's sincerely hoped that Brown will realize it's impossible to solve a problem by doing things the same way, and that she wouldn't want to see a repeat of the 'silver diversion' of the 1890s. Hopefully she will put her skills to good use and make helpful contributions towards real monetary reform for all of our futures.

Just imagine the world we would have today if America had freed herself from a debt-based money system in the 1890s. There's no (good) reason why we should deny that world to future generations.

Human progress is poised at a crossroads right now. We really can't afford to go the wrong way again.

For disclosure purposes, I have met Ellen Hodgson Brown on several occasions, and I like to think she has good intentions. However, I strongly disagree with the approach taken and the conclusions drawn in this book, and articles arising from it, because they do not change the system that has wreaked so much havoc. I have tried on several occasions to convey to the author that doing things the same way won't change anything, but I have had no satisfactory response. Hence I felt duty-bound to do this review to raise these concerns for anyone to read.

This review was edited-down from an analysis three times this size, which will eventually be made available to serious researchers. Many thanks to Tadit Anderson and Thomas Gregory for their help with this process.

* All page references [in square brackets] relate to the Second edition (revised and updated February 2008); all quoted text in italics is the author's emphasis.