The ECONOMIC STANDARD

James Madison and … Cryptocurrency?

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"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair….
– Charles Dickens, *A Tale of Two Cities*

Introduction

The blockchain and its attendant cryptocurrencies such as Bitcoin, Ethereum, Tether, XRP, Solana, Terra and Cardano, represent a burgeoning trillion-dollar sector. It, however, is a sector that's neither for the foolish nor for the faint of heart.

Hence, we turn to the memory of a man of great competence and character for inspiration and guidance. What would Founding Father and President James Madison do?

Prohibiting or inhibiting, by legislation or regulation, the emergence of a high integrity, stable, resilient cryptocurrency would be a great pity. Of course, Madison's not here to speak for himself.

That said, the historical record clearly shows that Madison well understood the institution of money, including currency. He knew, and stated clearly, that permitting the issuance of bad money would commit a grave disservice both to justice and prosperity.

True then. True now.

Prohibiting or inhibiting the emergence of crypto well might cripple America's financial and technological world leadership. That leadership position resulted from the hard work of Madison and a handful of other extraordinary leaders.

Let us not kill the goose that lays the golden eggs.

Who, besides Madison, are America's other monetary architects? That's an interesting subject for another day. For now, let it suffice to show how James Madison's outlook applies to today's world.

How is that venerable statesman's political economy applicable to America's future position of world leadership for tech, for innovation, for an equitably prosperous economy, and to remain the exemplary world political leader?

James Madison, Currency and Cryptocurrency

Could James Madison's ideology have relevance to cryptocurrency, a technology invented almost two centuries after his presidency? As it turns out, yes.

Madison – along with all the other significant founders, except Ben Franklin – was openly and consistently trenchant in his criticism of paper money. Paper money – as opposed to "specie," gold and silver coins and currency legally convertible thereto – had proved pernicious in colonial times.

Paper money wreaked (or in the crypto current lingo, "rekt") havoc at the colonial and state level and at the hands of the Continental Congress. As to the latter, the paper money overissued by the Continental Congress became a byword for worthlessness: "not worth a Continental."

Thus, the issue of paper money was a very big deal during the formation of the United States. The Constitution explicitly prohibits states from coining money or issuing paper money. That prohibition continues in full force to this day.

The Constitution's framers also withheld the power to issue paper money from the Congress by, on August 16, 1787, stripping from the draft Constitution congressional power to "emit bills." "Bills" meant paper money undefined by and not convertible to a fixed weight of precious metals.

This inhibition, although not explicit prohibition, endured — with wartime suspensions — in various permutations until 1971. After President Johnson, de facto, and President Nixon, de jure, violated this principle, the value of the dollar plummeted by 50% within a decade and by about 84% today.

There has been a slow but steady erosion in the Federal Reserve Note dollar as a store of value and a unit of account. These, per the canonical William Stanley Jevons, are two of the three critical elements of good money.

Simultaneously, real economic growth rates stagnated, except during the stable monetary policy eras under Presidents Ronald Reagan and Bill Clinton.

As demonstrated by business professor Dr. Roy Jastram, Ph.D., under the previous prevailing mechanism of the gold standard, America mostly prospered. Except during the suspension of the gold standard during wartime secular inflation was all but unknown.

There is a long, rich, and mostly neglected legal and constitutional history to all this. But sufficient for our purposes here, the gold standard, while still perfectly practical, is utterly out of fashion among policy elites. It is not an obvious current policy option.

Cryptocurrency, by contrast, presents as a rising policy star with a powerful constituency and a legitimate trillion-dollar market cap. As the technology matures, it may prove to be a more efficient base money than gold.

James Madison, based on his life and works, would approve. He would certainly approve of using empirical, rather than arbitrarily legislated, means to find out.

SECTION 1: Why James Madison?

Madison has long been celebrated as "the father of the Constitution." Madison mainly earned this recognition of paternity for his outsized role in structuring and persuasively arguing for the Constitution as we know it. His advocacy was instrumental in shaping our national charter in the Federal Convention of 1787 and in getting it adopted by the states thereafter, both as an author of the Federalist Papers and as delegate from Orange County, in the crucial Virginia Ratifying Convention.

As an aside, note that at the Philadelphia Constitutional Convention, delegate Madison took near-verbatim shorthand notes of the debates of the formulation of the Constitution, retiring at the end of each long, hot session – in a sweltry Philadelphia summer, long before air conditioning – to transcribe his notes to full text lest he later have a difficult time interpreting them. Therein, for those who profess to care about such matters, we have recorded the true "original intent" of the founders.

Madison, along with Alexander Hamilton and John Jay (formerly head of the Continental Congress, an American diplomat, and the first chief justice of the U.S. Supreme Court) was one of the three authors of the Federalist Papers. James Madison, anticipating the role of lobbyist, was the de facto floor leader of the original Congress. Per American Heritage:

"The First Congress, particularly its first session, was dominated by the diminutive figure of James Madison, who often led the debates and overawed the House of Representatives with his unrivaled command of legislative machinery and by his powers of persuasive argument. Although he held no formal position beyond that of representative from Virginia, his intimacy with Washington and his commanding grasp of the Constitution bestowed on him a tacit authority in shaping the House's agenda."

He shepherded the first ten amendments, referred to collectively as the Bill of Rights, through Congress to be ratified by the States. Later, he served as Founding Father and President Thomas Jefferson's successor as the fourth president of the United States. Madison proved himself to be a visionary statesman and philosopher in many respects.

Not the least of these was his writings on monetary policy. And his observations at the time are, in fact, pertinent to monetary policy today.

Enter crypto.

SECTION 2: Madison, Right on the Money

Madison criticized state legislators for not looking under the lens of narrow economical and regional interests, and for being beholden to narrow economic and regional interests that do not serve the broader good. This anticipates our modern-day dilemma with lawmakers and agencies that are attempting to apply outdated, obsolete, and shortsighted rules to blockchain assets and cryptocurrency.

Consider Madison's Vices of the Political System of the United States, *Founders Online,* National Archives. [Original source: *The Papers of James Madison*, vol. 9, *9 April 1786–24 May 1787 and supplement 1781–1784*, ed. Robert A. Rutland and William M. E. Rachal. Chicago: The University of Chicago Press, 1975, pp. 345–358.]

The scholars at the National Archives provide this associated editorial note:

"Long before the deputies assembled at Philadelphia in May 1787, JM [James Madison] had begun mentally "to revolve the subject" to be discussed at the Federal Convention (JM to Washington, 16 Apr. 1787). No other delegate came to that historic meeting so well prepared as JM, ready to confront the complex problems of establishing an energetic national government based on republican principles. His many years of public service on both the state and continental level had provided JM with an unrivaled knowledge of American affairs. Yet what distinguished JM from his fellow delegates, apart from his superior intellectual gifts, was not so much his firsthand experience in public life—extensive though it was—as his diligent effort to apply to that experience a scholarly study of the principles of government. Blending "together the profound politician, with the Scholar," JM took the lead on nearly every great question at the convention and consistently came forward as "the best informed Man of any point in debate" (William Pierce, "Character Sketches of Delegates to the Federal Convention," in Farrand, *Records of the Federal Convention*, III, 94)."

Madison therein wrote:

"Paper money, installments of debts, occlusion of Courts, making property a legal tender, may likewise be deemed aggressions on the rights of other States. As the Citizens of every State aggregately taken stand more or less in the relation of Creditors or debtors, to the Citizens of every other States, Acts of the debtor State in favor of debtors, affect the Creditor State, in the same manner, as they do its own citizens who are relatively creditors towards other citizens. This remark may be extended to foreign nations. If the exclusive regulation of the value and alloy of coin was properly delegated to the federal authority, the policy of it equally requires a control on the States in the cases above mentioned. It must have been meant 1. to preserve uniformity in the circulating medium throughout the nation. 2. to prevent those frauds on the citizens of other States, and the subjects of foreign powers, which might disturb the tranquility at home, or involve the Union in foreign contests.

In the Federal Convention itself, he observed the reason for an important vote (carrying the vote of the Virginia delegation in support of the removal of the power) against giving Congress the power to issue "bills of credit," as "This vote in the affirmative by Virga. was occasioned by the acquiescence of Mr. Madison who became satisfied that striking out the words would not disable the Govt. from the use of public notes as far as they could be safe & proper; & would only cut off the pretext for a paper currency, and particularly for making the bills a tender either for public or private debts."

And in Federalist 44 he wrote:

"The extension of the prohibition to bills of credit must give pleasure to every citizen, in proportion to his love of justice and his knowledge of the true springs of public prosperity. The loss which America has sustained since the peace, from the pestilent effects 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, constitutes an enormous debt against the States chargeable with this unadvised measure, which must long remain unsatisfied; or rather an accumulation of guilt, which can be expiated no otherwise than by a voluntary sacrifice on the altar of justice, of the power which has been the instrument of it. In addition to these persuasive considerations, it may be observed, that the same reasons which show the necessity of denying to the States the power of regulating coin, prove with equal force that they ought not to be at liberty to substitute a paper medium in the place of coin. Had every State a right to regulate the value of its coin, there might be as many different currencies as States, and thus the intercourse among them would be impeded; retrospective alterations in its value might be made, and thus the citizens of other States be injured, and animosities be kindled among the States themselves. The subjects of foreign powers might suffer from the same cause, and hence the Union be discredited and embroiled by the indiscretion of a single member. No one of these mischiefs is less incident to a power in the States to emit paper money, than to coin gold or silver. The power to make any thing but gold and silver a tender in payment of debts, is withdrawn from the States, on the same principle with that of issuing a paper currency.

The contemporary historical record shows that Madison clearly understood the role of good money: Money not susceptible to debasement, to social cohesion, to popular confidence in the government, and to "the industry and morals of the people."

SECTION 3: An Honest Inference as to Where Madison Would Stand on Crypto

Madison's overarching observation, about "the pestilent effects 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" provides important clues as to where he would most likely have stood on the matter of cryptocurrency.

Of at least equal importance to his observations on money are the implicit consensus mechanisms Madison employed in his civic duties as framer, as Member of Congress, as president, and as elder statesman. In shepherding the Federal Convention, in arguing the eloquent Patrick Henry's opposition to the Constitution in the Virginia ratifying convention, in the House, in the White House, and on the battlefield – he having been the only serving president to lead troops in combat giving a profoundly new character to the role of Commander in Chief – Madison displayed the kind of classical liberal distributed, rather than centralized, decision mechanism to build consensus that is intrinsic to the blockchain and implicit in cryptocurrency.

From these characteristics we may confidently infer that Madison would have found cryptocurrency consistent with his own governance practices. Conversely, the current policy process has provided insufficiently distributed, lacking a robust private-public consensus mechanism, leading to inferior outcomes. For example, the "must-pass" Infrastructure Jobs Act included, virtually undebated, two provisions which will, if they are sustained, prove potentially challenging to the blockchain sector.

This could lead to the gratuitous annihilation of a trillion dollars in capital value; for reference, several times the value of the gold held at Fort Knox. More consequentially, it could drive a key emerging tech sector offshore to places like Switzerland and Singapore.

Imagine how much poorer America would be if Silicon Valley's claim to fame was still based in prunes, tomatoes, cherries and walnuts rather than the financial heart of the digital economy. The stakes are high indeed!

Meanwhile, regulatory agencies – among the least democratic of our government bodies – are making rules and taking enforcement actions without treating the sector's best representatives as respected counterparties. That kind of misrule has caused trouble from earliest times, from the Stamp Act and the Townshend Acts to the Boston Tea Party.

“Taxation without representation is tyranny,” attributed to founder James Otis, was a prevalent sentiment in pre-revolutionary colonial culture. Such sentiment continues to this day.

As set forth in the Declaration of Independence, the legitimacy of government depends upon the consent of the governed. We depart from that principle at our peril.

Much better, as the lead co-author of this piece has presented at a recent Government Blockchain Association (GBA) event, would be to generate a cooperative, inclusive, public-private consensus partnership model. This is the right mechanism with which to develop optimized outcomes to foster innovation while protecting the public.

With inflation rising to levels not experienced in 40 years, we submit that it makes sense to create a climate of responsible research and development to cultivate cryptocurrencies as a valuable and sustainable contribution to good governance, price stability, and equitable prosperity.

SECTION 4: The Madison Model

We advocate a Madisonian model of classical (small “l”) liberal (small “r”) republican governance to address the opportunities and the challenges implicit in the blockchain and, especially, cryptocurrency. These are the governance consensus mechanisms that Madison and his colleagues employed to create and make effective the federal government of the United States.

Imperfect? Of course.

From *Churchill by Himself*, page 574:

“Many forms of Government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed **it has been said** that democracy is the worst form of Government except for all those other forms that have been tried from time to time.…”

Perhaps we may be forgiven for asking those in authority to stick to what has worked, although not perfectly or all-wise, better than “all those other forms that have been tried from time to time.” As Dr. W. Scott Stornetta, chairman of the American Blockchain PAC advisory board, puts it, let us develop a “blockchain with American characteristics.”

Conclusion

There are straightforward ways to assemble the smartest people from the legislative and executive branches and from independent agencies, together with responsible industry leaders and those from academia and the policy institutes of the right, the left and the center into a working group to responsibly develop, rather than inhibit, blockchain technology.

As Treasury Secretary Janet Yellen, speaking at American University, recently called for in her remarks,

"…the government's role should be to ensure responsible innovation – innovation that works for all Americans, protects our national security interests and our planet, and contributes to our economic competitiveness and growth. Such responsible innovation should reflect thoughtful public-private dialogue and take account of the many lessons we've learned throughout our financial history. This sort of pragmatism has served us well in the past and I believe it is the right approach today."

Let's follow Secretary Yellen's counsel and come together to reach consensus on the optimal legal and regulatory structures to foster the blockchain sector. Let us, thereby, emulate James Madison's hardworking and persistent advocacy for the common good.

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