Chapter Seven

The Nature, Cause, and Consequences of Inflation

Inflation is always and everywhere a monetary phenomenon.
— Milton Friedman

Inflation is not a natural phenomenon like the weather, nor a law of nature like gravity and magnetism; it is a symptom of the misallocation and mismanagement of money and credit. Bankers, politicians, and pundits talk about inflation as if it were something mysterious, but the only real mystery about inflation is why we have allowed it to continue for so long. The confusion comes from the failure to distinguish between cause and effect. Quite simply, a general increase in the price level, which most people think is inflation, is an effect; its cause is inflation of the currency through its improper issuance.

What Is Inflation?

Despite the morass of confusion that prevails even within the halls of ivy, there have been a few economists who have put the spotlight exactly where it belongs. Yale economist Irving Fisher, speaking of inflation and deflation as far back as 1928, maintained that "the extreme variability of money [meaning its purchasing power] is chiefly man-made, due to government finance, especially war finance, as well as to banking policies and legislation."[1] He further acknowledged that "we may notice that the worst examples of inflation have come from unbalanced government budgets. As we have seen, when a government cannot make both ends meet, it pays its bills by manufacturing the money needed."[2] Famed economist Milton Friedman more emphatically maintained that "inflation is always and everywhere a monetary phenomenon."[3]

The prices of individual commodities may increase because of changing conditions that affect their supply or demand—a widespread drought or crop failure, for example, might cause an increase in the price of food commodities, like wheat—but this "dearness" is a different phenomenon, and it is unlikely that it would cause a general rise in all prices, unless it were a basic input to production like energy sources—petroleum, gas, coal, and certain renewables. It is common for pundits and academics to explain inflation as "too much money chasing too few goods." That is true, but that does not adequately explain inflation because it neglects to say how that "too much money" comes into existence. We explained in Chapter 6 how money is created by banks when they make loans. The key questions in that process are, who is qualified to receive such loans, on what basis should loans be made and money created, and are banks trustworthy custodians of the people's credit?

Dr. Edward E. Popp gets to the crux of the matter in his book, *Money, Bona Fide or Non-Bona Fide*. He is correct in saying, "Inflation would never exist if only bona fide media of exchange were used."[4] He explains as follows:

> "Even a non-bona fide medium of exchange is a medium of exchange as long as it is accepted by those who sell goods and services. However: a person should know the difference. A counterfeit bill is a medium of exchange as long as it is accepted by those who sell goods and

> services. Inflationary money also is a medium of exchange as long as people accept it and use it as a medium of exchange.
>
> However, counterfeit money and inflationary money are not bona fide media of exchange because they are not issued in good faith and do not give evidence of a just claim for goods or services. Counterfeit money and also inflationary money could exist even when no goods or services would be in existence to be offered to anyone. Bona fide media of exchange will never exist unless goods or services also exist and are being offered to the bearer of the document.
>
> There is no reason for the existence of a medium of exchange unless someone has something to offer for it. A bona fide document used as a medium of exchange comes into existence only because the one who wrote it has some goods or services to offer for it. Any document that is used as a medium of exchange is not bona fide unless it is redeemable in gold or other goods or services. This applies, no matter by whom the medium of exchange is issued, no matter if it is called a note, legal tender, special drawing rights (SDRs), or certificates of any kind. Notes or certificates which are redeemable for goods or services are bona fide media of exchange."[5]

Of course, gold has since been demonetized, but it remains a commodity that is widely valued, and as such, a promise to redeem currency for gold or for any valued commodity is bona fide money.

Who Has the Power to Inflate?

Inflation then is simply the result of improper issuance, i.e., the insertion of non-bona fide money into the economy, but how is that accomplished and who might be responsible? These are the possible inflators of money:

- Private counterfeiters
- Central banks
- Commercial banks
- Central governments

A legitimate issuer of currency knows that his currency is a credit instrument representing a claim against the goods or services he is prepared to deliver within a relatively short period of time. It must be his intention to accept his currency back as payment for those goods or services. Thus, a currency is "born" when it is accepted from the issuer as payment, and it is extinguished when it is accepted back by the issuer as payment for the goods or services he promised to deliver. Everybody knows that currency buys goods and services, but most fail to recognize that goods and services buy currency. Just as the issuer "sold" his currency at the point of issuance in return for the goods and services of others, he must later "buy" his currency back by selling his own goods and services. This cycle of issuance and redemption completes the demands of reciprocal exchange, which is the fundamental purpose of money.

In coming to understand inflation, the matter may be made clear if we first consider the private counterfeiter. Private counterfeiters have the power to inflate the money supply to the extent that their counterfeit bears an adequate resemblance to official currency and so long as they can avoid being detected and caught by the authorities. The private counterfeiter prints notes that he then spends in the marketplace, receiving valuable goods and services from unsuspecting vendors. The counterfeiter is a cheat and a thief because he has no intention of reciprocating by accepting back

his notes in payment for anything. For him, the issuance of his (bogus) currency is a one-way street. Any kind of issuance that expands the total supply of money without expanding the amount of goods and services available in the market is inflationary, but the damage done by private counterfeiters is generally insignificant in comparison with the official currency debasement that has become virtually universal in countries around the world.

Central banks also have the power to inflate the money supply. They do it under the color of law[6] by monetizing various kinds of long- and short-term obligations, especially the bonds and bills of the federal government, plus mortgage-backed securities which pool residential mortgages together. As of October 2023, the Federal Reserve Banks held more than $5 trillion of federal debt, up from $512 billion in 2000,[7] along with 2.4 trillion in mortgage-backed securities, up from zero at the beginning of 2009.[8] This is accomplished by what the Federal Reserve calls "open market operations," whereby the Fed buys U.S. government bonds and other securities in the open market, which, whatever they choose to call it, is blatant market manipulation. Since the Fed has been given by Congress the power to create from nothing the funds with which to pay for these purchases, pseudo-money is added to the existing supply. Just as in the case of the private counterfeiter, such expenditure of official counterfeit (non-bona fide) money puts no additional goods or services into the market. Even worse, that newly created money then gets deposited into the banking system where it becomes additional "reserves" that enable the banks to collectively lend many times more than that amount of money into circulation. That is why this kind of money, created by the Fed, is called "high powered money."

Improper Basis of Issue by Banks Is Inflationary

As pointed out earlier, most of the money is created by commercial banks by the process of lending it into circulation. Banks have the power to issue money by making loans on either a proper bona fide basis or an improper non-bona fide basis. It is not the amount of money per se that causes inflation, but the basis upon which it is created. Loans made on an improper basis have the effect of inflating the money supply. An improper basis is any loan that does not put goods or services into the market either immediately or in the very near term. Commercial banks play a dual role. They act both as "depositories" and as "banks of issue." In their role of depository, banks lend out depositors' funds (your savings and mine) to those who have need of them, which may be for either current consumption or for the creation of new productive capacity (capital formation). As "banks of issue," which is by far their primary role, they are supposed to create new deposit money on the basis of short-term commercial bills that accompany the delivery of goods to market, and to finance inventories and other business assets that enable the production and sale of goods and services within a few months' time.

In practice, however, banks these days make little distinction between these two roles and they commonly create deposit money by making loans to finance both the flow of goods and services into the market as well as making loans that take goods and services from the market, as when a bank makes a loan for the purpose of financing consumer purchases. More importantly, loans made to finance investments in long-term productive assets, like factories and durable machinery, can be inflationary because those newly created deposits do not deliver goods or services to market until the more distant future, and sometimes not at all. Finally, the most egregious abuses of the money power involve the banks' purchase of national government securities and loans that finance speculative investments in such things as corporate shares, commodity futures, and foreign currencies. Whenever a bank buys a national government bond, it is making a loan to the government.

Government Deficits and Inflation

It is instructive to look more deeply into the mechanisms by which governments inflate the supply of their national currencies. In some countries governments spend their currency directly into circulation. One historical example would be the "greenbacks" that were spent into circulation by the United States Treasury during the Civil War. Such issuance is inflationary if it exceeds the medium-term expected tax revenues and other revenues of the government. Today in the United States and most other countries, the government does not inflate the money supply directly, but instead accomplishes it in collusion with the central bank and the banking cartel as we described in Chapters 3 and 4. When the Federal Reserve or a commercial bank buys government bonds as described above, money is added to the economy on an improper basis. The purchase of government bonds does not bring any additional goods or services into the market. Former Congressman Ron Paul has on many occasions reminded his colleagues in Congress how this collusion works. In 1997, he told them:

> "The Congress will spend too much because there is tremendous pressure to spend on all these good things we do; all the welfare programs, and all the military expenditures to police the world and build bases around the world . . . lo and behold, there is not enough money to borrow and not enough tax money to go around, so they have to have one more vehicle, and that is the creation of money out of thin air, and this is what they do. They send the Treasury bills or the bonds to the Federal Reserve, and with a computer they can turn a switch and create a billion or $10 billion in a single day and that debases the currency. It diminishes the value of the money and alters interest rates and causes so much mischief that, if people are concerned about the economy or their standard of living or rising costs of living, this is the source of the problem. Why do we allow the Government to counterfeit the money and make it worthless all the time?"[9]

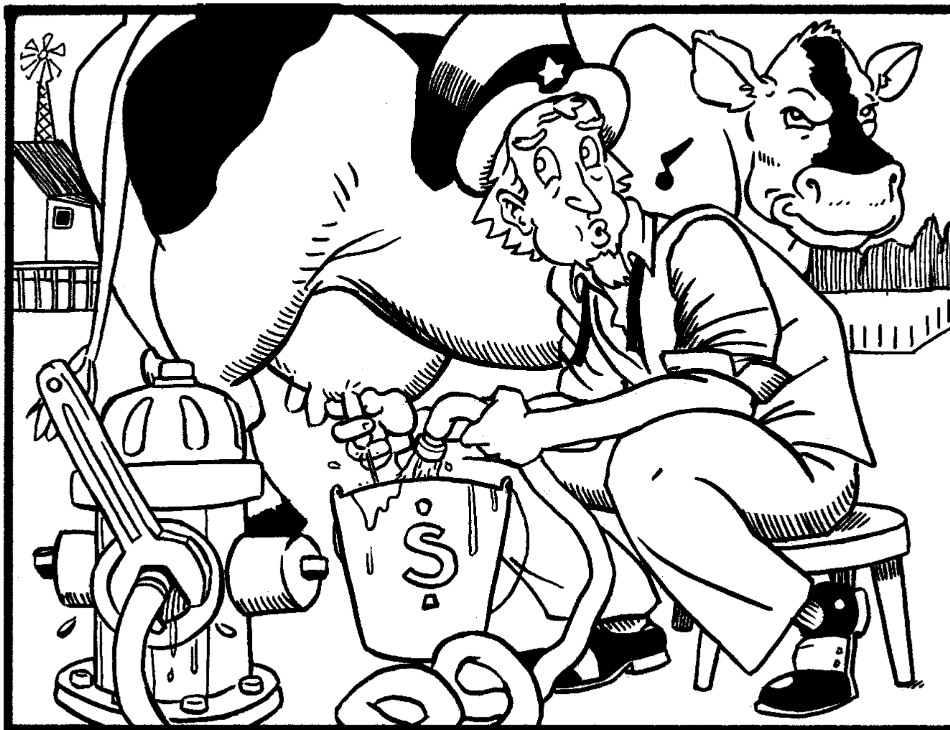

Figure 7.1Watering the Milk (Drawing by Dennis Pacheco)

The process of currency inflation can be likened to a farmer adding water to his milk, as depicted in Figure 7.1 above. Suppose the farmer were to divert half his milk production to his own use, leaving only half of the amount that he formerly delivered to his customers. With only half as much milk to sell now, his income from sales would be halved while leaving many of his former customers to go without. But to avoid a loss of income, a dishonest farmer might simply add water to the remaining milk to deceive his customers into believing that they were receiving just as much milk as before. If that process were done little by little over time, with more and more water being added to less and less milk, it might go undetected for a long time. There would be the appearance that customers are getting the same amount of milk as before, while they slowly starve to death for lack of sufficient nourishment. So it is with the creation of money; the "pseudo-money," like the water in the milk, adds no value to the real economy and thus diminishes the value of all the money.

In response to inflation, vendors have no choice but to raise their prices as they see their own costs increasing. Big corporations that dominate their markets are first in line to raise their prices because they have the market power to do so, but smaller enterprises, and workers and professional service providers who sell their services are at a disadvantage because they have little market power and need to negotiate new contracts long after their own costs have risen significantly.

The German Hyperinflation—A Classic Case

One of the most notorious cases of hyperinflation was the one perpetrated by the Weimar government in Germany following World War I. At the beginning of the war the exchange rate of the German mark to the U.S. dollar stood at 4.2 to 1 (one mark was worth about 24 US cents). By the end of 1922 the mark had fallen to 1,500 to 1, and by the end of November 1923 it had fallen to an astounding 4,200,000,000,000 to 1.[10] The folklore about the incident includes images of people taking wheelbarrows full of German currency to bakeries to buy a loaf of bread. Robert Hetzel describes the situation this way:

> "In 1913, total currency in Germany amounted to just 6 billion marks. In November 1923 in Berlin, a loaf of bread cost 428 billion marks and a kilogram of butter almost 6,000 billion marks. From the end of World War I, until 1924, the price level rose almost one trillionfold. The economic cause of this hyperinflation was the monetization of public and private debt by Germany's central bank, the Reichsbank. The political cause lay in the inability of a fragile democracy to impose the taxes necessary to pay war reparations. Unable to cover its expenditures through explicit taxes, the German government ran deficits exceeding 50 percent of its expenditures from 1919 through 1923. Reichsbank purchases of government debt made the printing press the ultimate source for funding these deficits."[11]

The political circumstances of the German hyperinflation, while they may not justify it, help us to understand why it occurred. A defeated Germany was forced to accept punishing terms under the Treaty of Versailles. These terms included the payment of reparations, the amounts of which were impossibly huge for an economy weakened by the war and stripped of some of its most valuable and productive resources. Even though a policy of inflation is ultimately self-defeating for a government, it is often seen by politicians as a necessary expedient. The then head of the German central bank himself maintained that "So long as the reparations burden remains, there is no other means to procure the necessary means for the Reich than the discounting of Reich Treasury notes at the Reichsbank."[12] In other words, the central bank created out of thin air the money needed to buy the government's debt instruments.

Figure 7.2 A 100 million Mark note of Weimar Germany.[13]

With the accelerating rates of currency debasement and increasing prices of goods, employers paid their workers daily—then several times a day. Cash would be handed over to family members so that it could be quickly spent before prices in the shops rose further. In the absence of a reliable currency, people increasingly reverted to barter—refusing to accept money for the things they had to sell to stay alive. Pensioners and others whose incomes were fixed saw their purchasing power evaporate into nothingness. The middle class was ruined as their savings and financial investments became worthless. "The poor became even poorer, and the winter of 1923 meant that many lived in freezing conditions, burning furniture to get some heat. The very rich suffered least because they had sufficient contacts to get food etc. Most of the very rich were landowners and could produce food on their own estates."[14]

As the value of a currency continues to plummet, people naturally turn to more stable means of value reckoning. To protect the real value of their transactions, they may express prices in some more stable currency unit, like the dollar, or some useful commodity. Hetzel reports that,

> "The actual breakdown of German economic life came about because of interventions by the German government to maintain the paper mark as the medium of exchange. Holtfrerich writes of hyperinflation Germany, "The economy had already largely turned over to a foreign, hard-currency standard. The crisis arose out of the reluctance of the Reich to permit business to employ foreign means of payment in domestic transactions as desired; indeed, the Reich could not permit the practice . . . as long as inflation remained as a 'tax' source.""[15]

Ulrich von Beckerath provides an interesting anecdote relating to this. In a letter to one Dr. Runge, dated July 5, 1949, Beckerath mentions a meeting that took place in 1923 between Hans Luther, then minister of food and agriculture, and Herr Petersen, the mayor of the city of Hamburg. Beckerath said,

> "I do not know if you know what the currency meeting of Luther and Mayor Petersen in 1923 in Hamburg was about. Petersen had created a gold currency in Hamburg, and the wages of the Hamburg citizens were paid in gold marks. Luther went there horrified and tried to browbeat Petersen; he even talked about high treason, about the Reich army marching in, about having him arrested, etc. However, Luther had picked the wrong man to bully. Petersen announced that he would accept civil war. A city of 1 million can raise

100,000 armed defenders, he told him, and as for the arrest talk, Luther should be glad that Petersen was not inclined to have him arrested on the spot by his Hamburg police. He did not look as if he were joking, and he was also a man who did not issue idle threats. Luther returned to Berlin with his tail between his legs, and shortly thereafter the Reich's printing press was shut down."[16]

How the Inflation Was Ended

Luther, however, should not be seen as the villain of the piece, for it is he who is credited with later saving the day by introducing the Rentenmark, as Beckerath explains.

> "Luther was attacked as partly responsible for the monetary crisis in Germany. But the crisis was due to circumstances not created by Luther. Where Luther was really unfettered, he not only proved to be of the greatest service to the German economy but also to the world economy. When in 1923 the German mark had fallen to a millionth part of a millionth part; when the social and political order was on the point of dissolving, Luther, who was then Minister of Finance, introduced the Rentenmark which saved Germany and thereby averted serious complications for Europe and the world. The Rentenmark offers an example of a gold-less gold currency being established in the course of a few days. It is well worth therefore a retrospective examination."[17]

Figure 7.3 A one Rentenmark note dated January 30, 1937

What did Beckerath mean by a "gold-less gold currency"? He meant simply that the currency was denominated in gold units but was not redeemable in gold. What then was it that enabled the Rentenmark to maintain its value relative to gold? It was this set of provisions:

- The Rentenmark was acceptable by all tax offices at face value in payment of taxes.
- There was no legal compulsion for anyone else to accept it; thus it was made to stand on its own merits in the marketplace and might legally pass at a discount from face value in private transactions.
- The amount issued was modest in relation to the tax revenues that supported it.

There were other provisions that were intended to support the value of the Rentenmark, but these, according to Beckerath, proved to be unnecessary.

Beckerath maintains that “The new currency could scarcely have been better devised; and if some foreign Finance Minister should ever be placed in a similar predicament, he would be well advised to study the German Rentenbank Act.” Bearing this in mind, we shall revisit the story of the Rentenmark in Chapter 19, where we will offer some further advice to governments.

At about the same time as the issuance of the Rentenmark, the official currency (the Reichsmark) was revalued and pegged to gold. According to Hetzel,

> “The November 1923 stabilization program committed Germany to exchange 1,392 reichsmarks for a pound of gold. However, German economic stability then became dependent upon the stability of the international gold standard. Starting in 1928, the deflationary monetary policies of two of the largest adherents to the gold standard, France and the United States, forced deflation and economic depression on Germany. Short-run salvation led to longer-run doom.”[18]

Hyperinflations always end in the utter worthlessness of the currency and the destruction of the monetary unit. Eventually a new unit is declared, and a new currency is issued. Obviously, the German authorities felt that monetization of the debt was the only politically feasible option. To be sure, there were pressures from many sides, but the bottom line is that only the monetary authority can cause inflation and only the monetary authority can stop it. The piper must be paid; the only question is, who will be made to foot the bill? Inflation is a tax imposed by underhanded means. Under a policy of inflation, it is the pensioners and all who have fixed dollar claims, like bank account balances and bonds, who are made to pay this “hidden tax.” The middle class bears the greatest burden as the purchasing power of their savings evaporates. Whether the monetization of government debt is carried out directly by the government or indirectly by a private central bank, the result is the same.

Once inflation reaches a certain level, it begins to create behavioral effects that exacerbate the problem. The expectation that prices will continue to rise causes people to lose confidence in the government and the stability of money’s purchasing power; they try to spend it as quickly as they can before prices rise further. Vendors, seeing their shelves being quickly cleared, raise their prices more—causing ever-greater demand for goods which causes further price increases. Money becomes a “hot potato.” As it continues to lose value, nobody wants to hold money or financial claims that are denominated in the monetary unit; they seek to convert it quickly into goods that will maintain their value.

Professor Heinrich Rittershausen, in his book, *The Central Bank*, explains that “During extreme inflation, ‘businessmen go into commodities,’ during deflation ‘they go out of commodities.’”[19] In the first instance, inflation, they become less liquid, preferring to hold commodities instead of depreciating money. Thus, other sectors of the economy become more liquid, i.e., there is more money in the hands of consumers and an increased rate of circulation—because in a runaway inflation no one wants to hold large amounts of money. With this hoarding of commodities, there is a decreased supply of commodities in the market even while the money supply is being inflated—adding further pressure to drive prices upward.

In the case of deflation, the money supply is being restricted by the monetary authorities so that it is insufficient to enable the available goods and services to be purchased except at reduced prices, often at less than their cost of production. In that case “cash is king,” and businessmen will prefer to hold money until prices bottom out.

Similarly, at the end of inflation, merchants again begin selling commodities for the new money, which they will want to hold onto—thus tending to drive commodity prices further downward.

As we said before, without legal tender laws and forced circulation of a currency, such dishonest and disruptive actions cannot be sustained by any government. After Germany's defeat in the second World War, inflation was again becoming a problem. In an editorial he wrote to the Freie Gewerkschaft [Free Union], dated December 10, 1945, Beckerath wrote,

> "Clear insight into these circumstances would give workers the ability to cope with inflation, precisely as they ultimately coped with it in 1923, namely by rejecting—in spite of all prohibitions—the money issued by the government, in this way forcing the government to change the monetary standard or by simply forcing a change from their employers. Essentially, that change was the transition from the paper mark to the "Gold reckoning standard.""[20]

Figure 7.4 A Five Hundred Billion Dinar Note of Yugoslavia. Courtesy Dragoslav Avramovic at Wikipedia

There have been numerous other cases of hyperinflation, some even worse than the German inflation just described. Figure 7.4 shows a 500 billion dinar note of Yugoslavia. Between 1992 and 1994, the Federal Republic of Yugoslavia (FRY) experienced the second-longest period of hyperinflation in world economic history. Inflation peaked at a monthly rate of 313 million percent in January 1994.[21]

More recently, the government of Zimbabwe abused its money, economy, and its citizens through currency inflation and draconian legal measures aimed at preventing people from protecting themselves. According to a March 2008 Voice of America report:

> "The Zimbabwean government has made it illegal for citizens to hold more than Z$500 million in cash, currently equivalent to just over 20 U.S. dollars. A recently introduced statutory instrument says anyone found in possession of more than this sum can be charged with unlawful hoarding. Companies are barred from settling bills over Z$250 million, about US$10, with cash. In recent days the exchange rate against the U.S. dollar has soared to Z$24 million. The decree was issued in an effort to regain control over the money supply and to put what Reserve Bank Governor Gideon Gono calls "cash barons" out of business. He coined the phrase to describe large operators on the country's bustling parallel markets in foreign exchange and most essential commodities."[22]

Such measures of legal compulsion are typically employed by governments as they try to force others to suffer the burden of their profligate spending and fiscal mismanagement that results from their official abuse of the money power.

Constraints upon Debasement of the Money

Are there any constraints upon the ability of these various entities to inflate? Gold convertibility of paper currency, while not an ideal approach, did in the past apply some discipline upon the overall volume of credit money (notes and deposits) creation, but with the elimination of gold redeemability the flood gates were opened wide for seemingly unlimited amounts of non-bona fide official pseudo-money to gush out from national governments and the banking cartel.

Proper issuance of national government money can be achieved only by the subjection of national political currencies to free market forces, i.e., by the elimination of the legal tender privilege and other legal means of forcing acceptance, about which we will have more to say in Chapter 19. But the ultimate need is for the complete separation of money and state which will be thoroughly discussed in Chapter 8.

Recall that Irving Fisher mentioned three factors that underlie inflation: government finance, banking policies, and legislation. Each of these plays a role. We have seen that the first of these comes down to deficit spending and the accumulation of ever more government debt. We have seen that banking policies enable the creation of money based on that debt (debt monetization), and on the basis of improper loans made to finance long-term assets or speculation. These add to the money supply without putting additional goods or services into the market. The third factor is legislation like legal tender laws that prevent the debased money from being refused or discounted in the market. The truth is that without legal compulsion to accept it, there can be no sustained inflation of money.

The Consequences of Dollar Inflation

Because of its longstanding status as the global reserve currency, the US dollar is a special case. As we pointed out in Chapter 6, the days of dollar dominance are quickly passing as foreign countries are losing their appetite for holding dollar denominated securities and are choosing to hold other assets (like gold) and other currencies as reserves, and to pay each other in their own currencies instead of with US dollars. That argument is further supported by former Congressman Ron Paul who recently stated that "The unintended consequences of US economic warfare on Russia have been the global realization that the US dollar is not as critical as once thought to keep the global wheels of commerce spinning;"[23] and a recent article in US News, that stated:

> "One of the more intriguing financial trends that gained steam last year was the de-dollarization movement. This is an effort by a growing number of countries to reduce the role of the U.S. dollar in international trade. Countries like India, China, Brazil, Malaysia, and Bolivia, among others, are seeking to set up trade channels using currencies other than the almighty dollar. With so much of the world economy reshaping itself in the post-pandemic landscape, is the reserve status of the U.S. dollar going to be the next domino to fall?"

> "The U.S. dollar now accounts for 58% of foreign exchange reserves held by overseas central banks, a record low. Gold, the most ancient widely accepted international currency, has chipped away at some of the dollar's dominance, accounting for 15% of reserves, up from 11% six years ago. …In recent years…inflation soared to previously unimaginable levels, calling into question the security and stability of the dollar for long-term savings and investments."[24]

That article also points to the 2023 failure of Silvergate, Silicon Valley Bank, Signature, and First Republic which were all large and credible American banking institutions that failed in rapid succession, and that it took "unprecedented guarantees in order to quell the crisis." It goes on to speculate about what might happen if the dollar loses its reserve status, saying, "For the U.S., it would likely mean less access to capital, higher borrowing costs and lower stock market values, among other effects. Having the world's reserve currency has allowed the U.S. to run large deficits in terms of both international trade and government spending. If foreigners no longer want to hold dollars for savings, it would force significant belt-tightening at home."[25] I leave it to the reader to peruse the entire article and to ponder how their own lives might be affected.

Responding to Inflation

In the face of official currency debasement, people are not entirely powerless. In a 1948 letter to Henry Meulen, author of the book, *Free Banking*, Beckerath wrote,

> "I may remind you of one of the greatest revolutions in history: The revolt of the German people against the government's "exclusive currency" in the years 1922 and 1923. Every day new thousands declined the notes of the Reichsbank and accepted other kinds of money or money-substitutes. If at that time a programme of Free Banking had been known to the public, thousands of Free Bankers would have replaced the Reichsbank, the crisis of 1930/32 would not have occurred, Hitlerism would have been impossible, no war would have happened, Germany's towns would still stand, I would still have my 3,000 books, you would still have your library—probably with a second copy of Greene's "Mutual Banking"—a terrible loss—and we would correspond upon details of Free Banking in Germany."[26]

Among these "other kinds of money and money substitutes" we can list private or semiofficial voucher claims on real value—typically goods and services, including telephone, gas, and electric utilities, as well as various kinds of transport services. In a letter to one Mr. Walker, dated June 4, 1954, Beckerath referred to a very effective currency alternative to the inflated government currency of the time. This was the issuance of "German railway money by the Railway Minister Öser . . . in the years 1923 and 1924 amounting to several hundred million RM put in circulation, and thereby (in my opinion) Germany was saved." Walter Zander wrote about the superiority of such service-based currencies in his article "Railway Money and Unemployment," observing that when a business acquires what it needs by borrowing money, it promises to deliver,

> "...something [money] at a fixed date which at the time of the promise it only hoped to obtain. Whether its hope will materialize is uncertain. The undertaking to pay at maturity contains therefore a speculative element, which is particularly hazardous in times of depression. It is therefore obvious that the Railway must be extremely circumspect in making credit purchases, i.e., in promising to pay at a later date with resources which have yet to be secured. But the Railway may promise something else, **namely, to transport commodities and persons, that is, to fulfill its function as a Railway. There is nothing speculative**

> **about that**. The means required for this, rolling stock and other plant, are available. The capacity of the Railway to act as a carrier is at any rate unquestionable."[27] [emphasis added]

Zander also mentions that a form of railway money had been issued a century earlier. When the Leipzig Dresden Railway was established, one third of the company's capital (500,000 thaler) was in the form of "railway money certificates" that remained in circulation for forty years.

The actual value of every currency, whether issued by a government or a private entity, is established by there being, to quote John Zube,

> "a short-term continuous demand for it, be it coercively and wrongly, via compulsory taxes or tributes, or via the debt payment foundation of the private economy, where, e.g., department stores or shop associations issue their own currency and it is accepted because it has "shop foundation" as Rittershausen calls it, i.e., the local shops accept it as ready money—and must do so, because it amounts to their own IOUs."[28]

Unlike public legal tender currencies, the acceptance of private currencies in the market is voluntary. This makes private currencies self-regulating in that the issuers themselves will manage their issuance in such a way as to avoid having it discounted or refused in the market.

Ralph Borsodi's Prescriptions

Ralph Borsodi[29] proposed a "five-fold plan" suggesting what individuals, groups, and communities can do now to prepare themselves for the inevitable, and to cushion the shock of collapse. I can only give a brief summary here, but the full details of his original plan can be found in his booklet, *Inflation is Coming*.[30] Keep in mind that that booklet was published in 1945 when the circumstances were quite different. Borsodi could not have foreseen the many changes that have enabled the day of reckoning to be delayed by many decades, but he was surely correct about the eventual outcome of government and banking monetary malfeasance, and his recommendations and proposed remedies, for the most part, remain valid.

His first set of recommendations related to decentralization, saying "Don't look to Washington—look to yourself!" Clearly, we have allowed too much power to migrate to higher levels of government, and the higher the level, the less responsive it is to the needs and wishes of the people. His second set of recommendations related to getting back to the land and homesteading as a way of becoming more self-reliant, something he did himself when he moved his family from New York City to a homestead in Suffern, NY. There, in 1934, he founded the School of Living which helped others to learn healthful, self-reliant, and rewarding ways of living.[31] The third part was to create locally issued stable exchange media to enable honest trade despite the devaluation of government fiat money, something he experimented with by issuing a currency called the "Constant."[32] His fourth suggestion related to trade, saying that "if trade is to be revived when the government credit collapses, traders must now plan how they will continue to do business…" Borsodi capped his plan with a fifth point, "education for leadership," which he considered "the most important suggestion," to educate leaders who would have both vision and technical knowledge sufficient to realize the other aspects of the plan.

Drawing upon the work of Borsodi and a great many others, further guidance in all of these matters is provided in the remainder of this book.

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[1] Fisher, Irving, *The Money Illusion*, p. 177.

[2] Ibid., p. 145
[3] A Monetary History of the United States, 1867-1960.
[4] *Money, Bona Fide or Non-Bona Fide*. p. 1. https://beyondmoney.files.wordpress.com/2023/05/popp-bonafide_non_bonafide.pdf
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[6] Color of law: n. the appearance of an act being performed based upon legal right or enforcement of statute, when in reality no such right exists. An outstanding example is found in the civil rights acts which penalize law enforcement officers for violating civil rights by making arrests "under color of law" of peaceful protesters or to disrupt voter registration. It could apply to phony traffic arrests in order to raise revenue from fines or extort payoffs to forget the ticket. [From https://dictionary.law.com/Default.aspx?selected=234. Accessed March 18, 2024]
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[10] Robert L. Hetzel, "German Monetary History in the First Half of the Twentieth Century," *Federal Reserve Bank of Richmond Economic Quarterly*, Winter 2002, p. 8. www.richmondfed.org/publications/research/economic_quarterly/2002/winter/pdf/hetzel.pdf.
[11] Ibid., p. 2
[12] Ibid., p. 6
[13] This is a photo of an actual note that was carried for decades in the wallet of a German friend, Johann Rennberger, now deceased, who fought in World War II and was held prisoner by the Russians. (Photo by Theo Megalli.)
[14] C. N. Trueman "Hyperinflation and Weimar Germany" https://www.historylearningsite.co.uk/modern-world-history-1918-to-1980/weimar-germany/hyperinflation-and-weimar-germany/ The History Learning Site, 22 May 2015. Accessed March 18, 2024.
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[16] Ulrich von Beckerath, letter to Mr. Runge dated July 5, 1949. Citation provided by Theo Megalli.
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[20] From an unpublished letter provided by Theo Megalli; translated by Theo Megalli and Philip Beard.
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[31] I was personally involved with the non-profit School of Living from 1979 to 1991 in various roles including Board member, president, and co-editor of its quarterly journal, Green Revolution.

[32] *Inflation and The Coming Keynesian Catastrophe: The Story of the Exeter Experiment With Constants.* https://centerforneweconomics.org/publications/inflation-and-the-coming-keynesian-catastrophe/. Accessed March 19, 2024.