CURRENCY INFLATION LEADS TO CHAOS—HISTORY PROVES IT

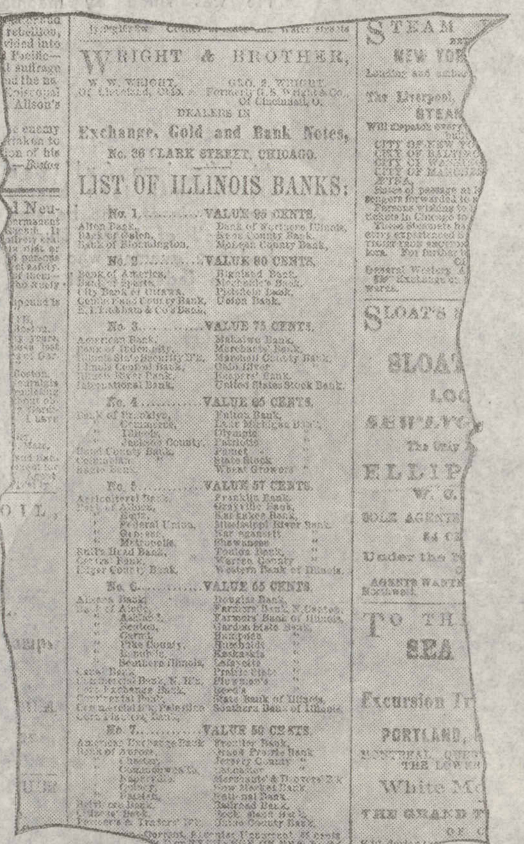
By Howard Wood

(Financial Editor, Chicago Tribune.)

THE story of money is the story of human emotions. It is the story of hunger and want and of prosperity and full stomachs. It is the story of scheming kings and emperors chiseling precious metals from their coins and plating them with gold to cheat their starving people; the story of bankrupt governments desperately striving to meet their debts by printing more money; the story of broken debtors clamoring for a deluge of currency to cheapen prices; and the story of their increased suffering when they got what they thought they wanted.

The world has had money in various forms since the dawn of civilization, but has never yet learned just what it is. It has, however, learned some important things about it, the most important of which is that a monetary system works best when the people have confidence in it and are willing to do business and make future contracts in terms of money, unafraid that its value is going to be undermined.

History shows that arithmetic has a lot to do with the soundness of money. Whenever the


WRIGHT & BROTHER,
Exchange, Gold and Bank Notes,
No. 36 CLARK STREET, CHICAGO.
LIST OF ILLINOIS BANKS:

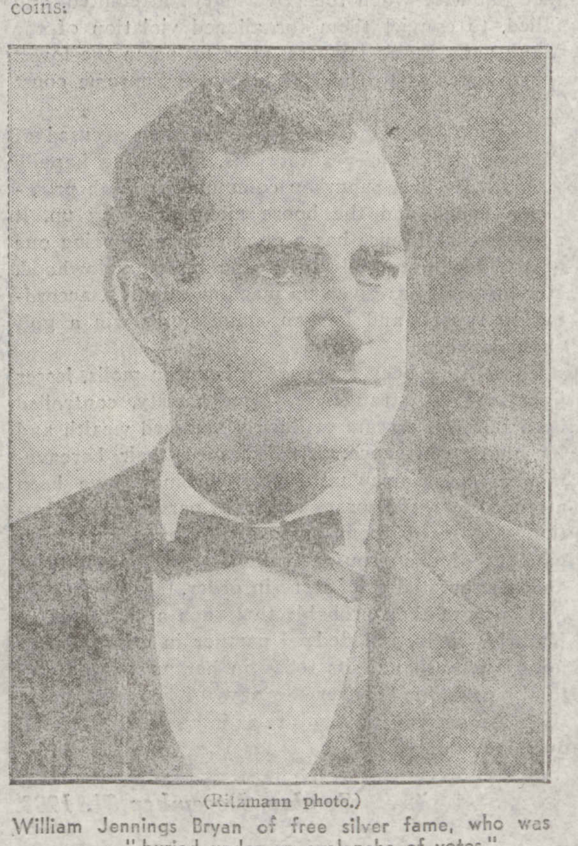
The banknote market in Civil war days. An advertisement from The Chicago Tribune of July 19, 1861.

supply of money has been suddenly expanded out of all proportion to current business needs, experience has proved that money depreciates and prices go up, usually so far up that costs of living soar much higher than the people's ability to pay for them—thereby causing much hardship.

But money is not an exact science, and even the ancients learned that the secret of monetary stability and prosperity lay in human emotions. When the people believed that money was sound it was sound, and when they lacked confidence in it there was trouble.

On the island of Uap, in the South Seas, one of the Caroline group, the native currency consisted of huge limestone wheels so large that they could not easily be moved. So honest were the Uapians and so staunch was their faith in their money that actual physical possession of these unique coins was not essential. The wheels were simply earmarked for the account of the owner.

Prosperity abounded in Uap until Germany, after taking over the island in 1898, brought on a depression by painting black crosses on all the stone wheels as a means of getting the populace to build public roads demanded by the Germans. Alarmed by what they regarded as impairment of their currency, the Uapians got to work, built the roads, and restored prosperity to the island by persuading the Germans to remove the black marks from their coins.



(Rohmann photo.)

William Jennings Bryan of free silver fame, who was ". . . buried under an avalanche of votes."

Since men came down from trees and out of caves there have been many strange forms of money—stones, bones, strings of beads, metals, and paper. Even beer was used for a time as money among the miners in Cornwall, England. In the seventeenth century a British general in Canada wrote on playing cards and distributed them as money among his soldiers after a pay ship from England had been sunk. This playing-card money circulated for decades.

The chief currency base since Babylonian days, however, has been precious metal, principally gold. Although far from perfect, gold has always enjoyed peculiar advantages. It has been sufficiently scarce to insure a fairly stable value. New production has been slow enough to prevent sudden fluctuations in value. It is compact and easy to handle.

In their age-long struggle to acquire gold because of what it would buy, people often have forgotten that what they really want are the things that they can purchase with gold and not gold or money themselves. They have confused money—which is merely postponed spending power—with wealth, such as land, food, clothing, shelter, and luxuries.

Take, for example, an island whose inhabitants can produce nothing but fish. They can accept in exchange for their fish either money or the things they need to live on—beef, clothing, knives, nets, and so on. If they take nothing but money, which is merely a medium of exchange, they are, indeed, poorer than if they took goods—in other words, wealth.

It is this confusion of money with wealth that has accounted for most of the economic disasters of the past. When times have been hard people somehow have had the notion that by increasing the supply of money they can make everything right.

"Give us more money," they have clamored.

And so at frequent intervals governments have endeavored to restore prosperity by printing numbers on bits of paper or by putting more copper in gold coins and have forgotten that the real wealth comes from the harvest field, the mine, and the mill.

The result has always been the same. As the gold content of the coin has been diminished, or as the number of pieces of paper money based on the same amount of gold has been increased, there has been no increase in the national wealth. Instead people have become frightened and have hesitated to plant crops and grind meal and fabricate goods. Prices have gone up, yes, because there are more units of currency per unit of wealth. But this has brought in Old Man High Cost of Living, and even the cheapening of debts has not offset $500 pairs of shoes or 150,000-mark ham sandwiches.

Take the case of Germany during the post-war inflation. This instance of monetary frenzy is pointed out because it lies well within the memory of the present generation.

The German nation was bankrupt—that is, it had borrowed so much money from its own people to cover the cost of the war that it was unable to repay its own people who held its bonds.

Solution: To print more money.

What happened?

The printing presses were started. That was in 1922. During that year and the following one commodity prices rose 900 billion per cent and stock prices went up 581 billion per cent.

This was great for the professional speculators, but the rest of the country went almost completely to pot. In the latter months of this orgy native Germans were going hungry with bales of million-mark notes in their pantries but no bread. The mark, which was formerly worth about twenty-five cents in United States money, fell so low that bales of mark notes were worth more as waste paper than they were worth as money and were sold to junk dealers.

Children played with stacks of money representing amounts that in pre-inflation days would have paid whole national debts. Men put metal coins on their coats for buttons.

Specimen of railroad scrip of 1854. The company which issued this particular piece of trade currency promised to redeem it with two dollars of real money.

Small currency scrip of 1862, when metal for coins was scarce. Small denomination bills, such as these, were known as "shin plasters." (Acme photo.)

Farmers, discovering that what was a good price for their produce one day was practically worthless the next, gazed ruefully at stacks of paper money in their woodsheds and kept their produce instead of selling it. In the cities workmen and salaried employes were paid twice a day and rushed out to spend their pay while it would still buy something. Wages lagged far behind prices. People went hungry, and they rioted. Men were killed.

Germans had marks in their pockets but dollars in their heads. They calculated the value of their marks each day in dollar exchange. Foreigners came into the country and lived like princes on a few dollars a week. They bought valuables for a song from Germans and took them out of the country.

Feeling became bitter among the working classes. Men went through the streets in Berlin carrying banners bearing such legends as: "The dollar rose 10,000 marks yesterday. Did our wages rise?"

The fall of the mark had become an avalanche. As the value of its money declined the government found its costs increased in proportion and it had to print still more money. And so the vicious circle continued.

"Imagine paying for one's dinner with a half dozen packets of paper, each as large as a Bible!" wrote a newspaper correspondent.

After the typhoon was over what was the result?

Sir Norman Angell, noted British economist, sums it up thus:

". . . one American cent would buy a thousand billion marks . . ." Here is a 500 billion mark bill, worth only one half of a cent and made by surcharging the regular five thousand mark bill.

"Within Germany there was a transfer of wealth from one group to another. Those who had lent money to others found themselves paid in worthless marks. Debtors walked off scot-free. Mortgages were repaid in full at one ten-thousandth of their original value.

"The German government, the German states, and the German municipalities found their funded indebtedness melting deliciously away, while those solid classes who had invested in the 'gilt-edged' securities of their country found their investments turned to worthless paper."

Investors stopped lending. They didn't have anything left to lend. Widows found their life insurance policies worthless. Savings of a lifetime melted away. Workingmen refused to pay rent, but this saving was more than offset by the increased cost of foodstuffs.

Finally the old mark was written off as worthless after it had dropped to a point where one American cent would buy a thousand billion marks. An entirely new unit of money, the rentenmark, had to be set up and was later backed by gold borrowed on the Dawes loan.

Germany's "redistribution of wealth" was completed and she prepared to start at scratch again.

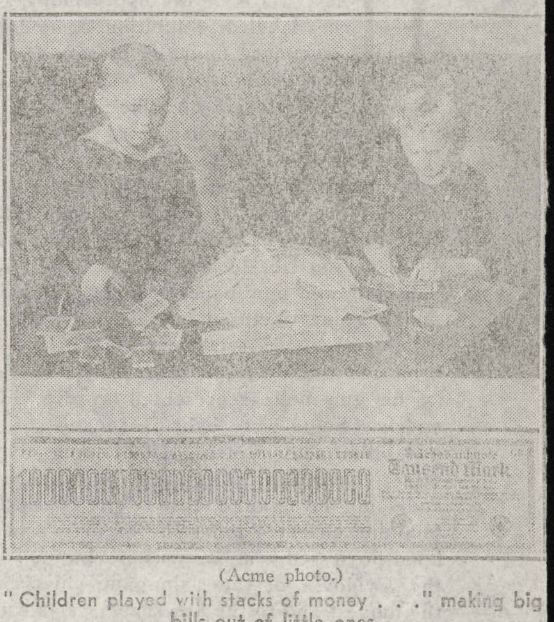
But let's go back farther into history. They say it repeats itself, and it does. There is, for example, the entrancing story of John Law, the "Duke of Arkansas," banker, duelist, and promoter extraordinary, who two centuries ago tied French finances in a knot and performed feats of financing that put to shame Ivar Kreuger, the match king of a paper kingdom.

John Law had a "system." He wrote a book proposing the emission of currency upon land as security instead of gold. His courtly manners impressed the regent, Orleans, who happened to be general manager of the French throne, and the regent fell for the "system." France had a lot of land, most of it in North America, and the regent was shy on cash. That was in 1716.

An edict was passed authorizing Law to found his bank. He called it "La Banque Generale." All went smoothly for a couple of years. The bank issued notes, and this money was placed in circulation. In 1718 the bank became a government institution and Law was made director. The king guaranteed the notes issued by the bank.

By the next year a big inflation boom was in full stride. The market price of the bank's shares had risen to forty times their original value.

Money for pay rolls w... inflation.



(Acme photo.)

"Children played with stacks of money . . ." making big bills out of little ones.

People with money hastened to Paris from the provinces, and everybody seemed to be getting rich on specualtion.

Law organized a subsidiary, the West India company, which obtained from the king a grant of the province of Louisiana in the new world. Louisiana was supposed to be full if gold and precious stones. Men were sent to Louisiana. They founded the city of New Orleans, but they found no treasure.

While the adventurers were discovering that Louisiana gold mines were nonexistent, Law was in Paris directing a big public works program for the government. He was made "Duke of Arkansas," and he started building bridges, canals, and public buildings. He started to make Paris a seaport.

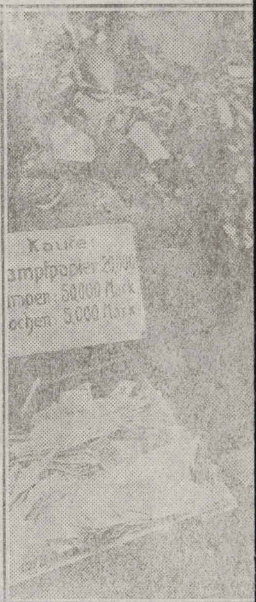
All went well for a time. New money poured from the presses. But, unfortunately, people began to sell their speculative shares and buy tangible property—land and goods. The paper money was written down in value. Law fled.

The citizenry lost, but the government benefited from the inflation, as governments always do, for the public debt was substantially reduced. The government destroyed the shares owned by profiteers and rich speculators and converted the rest, about a fourth of the total, into government bonds.

A rhymester of the time described the feelings of the ordinary man thus:

(Acme photo.)

A Berlin youth of post-war days rolling cigarets with German currency instead of with the customary rice paper. The ink, it is said, bothered some smokers.



". . . bales of mark ... worth as mo...

"My shares which on Monday I bought
Were worth millions on Tuesday, I thought;
So on Wednesday I chose my abode;
To the ballroom on Friday I went;
To the workhouse next day I was sent."

The disastrous effects of John Law's inflation were still evident seventy years later, at the time of the French revolution.

Did France learn her lesson? Only temporarily. Seventy years passed, and the people who had learned about inflation from Law died, and in the minds of their descendants the realities were dim reflections in the history books.

Again a French government—a new one—was hard pressed for cash, and again the idea of bringing back prosperity by printing numbers on bits of paper became a popular issue.

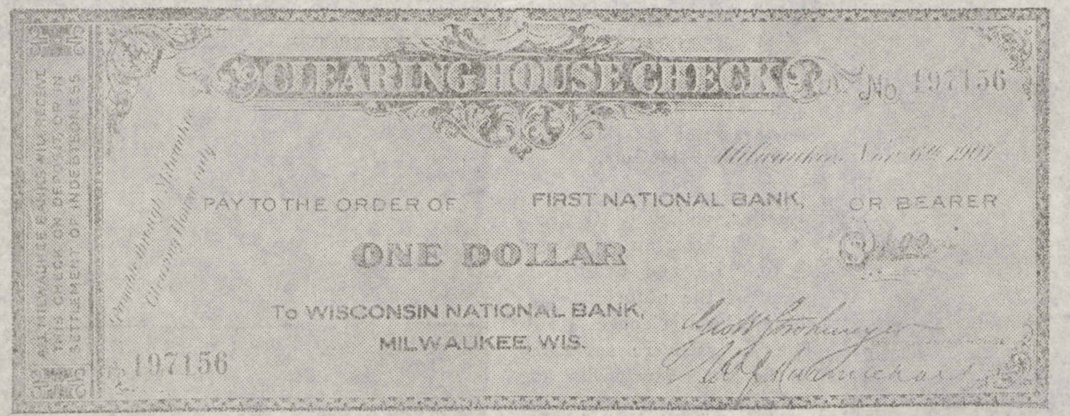
It was a New Era. Politicians argued that this time printing press money would be successful because it was in the hands of the people through their elected representatives, instead of in the hands of an autocratic king.

The French revolutionaries had just confiscated the vast lands of the church in the name of the government. It was proposed that these lands, amounting to about a third of the area of France, should be used as security for the issuance of assignats, a new form of paper money.

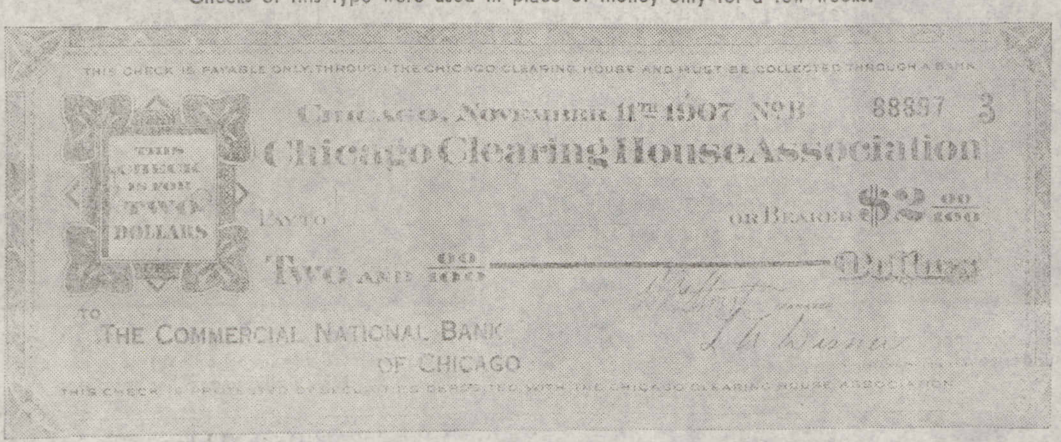
The amount proposed was 400 million livres. The livre was a unit of currency—later called the franc—which was worth about 20 cents in American money.

Loud and convincing was the oratory of those legislators who argued for the plan.

"Paper money under a despotism," argued one of them, "is dangerous. It favors corruption. But in a nation constitutionally governed, which itself takes care in the emission of its notes, which determines their number and use, that danger no longer exists."



Clearing house certificates for one dollar issued in Milwaukee during the money panic of 1907. Checks of this type were used in place of money only for a few weeks.



A Chicago clearing house certificate for two dollars bearing the date Nov. 11, 1907. Pay rolls were met with scrip of this type during the brief money scare of that period.