

Currency Inflation and Public Debts

An Historical Sketch

By Edwin R. A. Seligman, Ph. D., LL. D.,
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*With a Prefatory Note
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of New York*

THE EQUITABLE
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Prefatory Note

Currency inflation and public debts form a vexing problem which has called forth the liveliest discussion not only in the ranks of economists, but also among business people who find in the fluctuations of the foreign exchanges a constant reminder of the financial difficulties which confront the world. In asking Dr. Seligman to prepare for our enlightenment an historical sketch of currency inflation and public debts, we believed that a study of the past might well help us to understand better present-day conditions. Dr. Seligman's timely paper and his conclusions drawn from the lessons of history have encouraged us to present here, under the guise of a prefatory note, a few observations.

1. As is clearly pointed out, there is no such thing as a medium of exchange, money or currency which is not subject to fluctuations in value; gold, silver, copper, all fluctuate. Fiat money fluctuates not merely in accordance with the laws of supply and demand; the determining factor of its fluctuations is to be found in the credit of the issuing nation, and as every emission of such currency is the consequence of impaired national credit, it is, in effect, a step on the road to the possible repudiation of existing debts. As a consequence each step towards repudiation affects adversely the class which has invested its savings in obligations solvable in the forced currency, while it has a contrary effect upon the debtor class. For instance, the borrower of, say, one thousand Austrian crowns which before the war represented, we will say, one hundred days' labor, may now repay the debt with one day's labor.

But if such obligations were to be ultimately redeemed at par all the steps previously taken on the road to a possible repudiation would have to be retraced. The important thing to remember is that, in retracing the steps when the currency has been permitted to depreciate for the length of time and to the extent that has

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taken place in Europe, the debtor class is made bankrupt through the process of reëstablishing the value of the currency just as the creditor class is injured by the depreciation of the currency; but it makes a vast difference in democracies, where the majority rules, "whose ox is gored." One thing seems clear, however, that, intrinsically, lands, buildings and other tangible property are only temporarily and indirectly affected one way or the other, inasmuch as their transferable or market value merely registers the corresponding domestic value of the medium of exchange.

2. The pound sterling would be at parity with the American dollar even though not convertible into gold (except as affected by the balance of trade), provided the British Government debt were in a fair way to progressive liquidation. The same is true of the French franc. The trouble with these forced issues is that they are mere evidences of the fact that the credit of the nation is impaired, and it may be argued that the pound sterling and the franc will resume their upward trend to parity only when and so long as the national debt continues to decrease or the national wealth to increase:

3. A stable currency, that is to say, a currency based upon its interchangeable value with gold at parity, however desirable, does not seem to be essential to free commercial interchange of credits and commodities.

It is within the experience of the present-day banker and exporter that business was safely and constantly conducted, between Colombia and Mexico, for instance, on the one hand, and the United States on the other, in spite of the fact that in the case of Colombia the value of its paper currency had fallen progressively to the extent of 99-100's of its gold standard, and in the case of Mexico the paper currency had been entirely extinguished. The fact is that a country which has no currency whatever, or the currency of which is totally valueless, can nevertheless conduct and engage in

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foreign trade just so long as it has something to export. Under such circumstances the currency used must of necessity be foreign currency, and foreign countries can deal with the nationals of countries whose currency is valueless, and deal safely, so long as the integrity of the persons with whom they transact business is sufficiently established and those persons are in control of exports sufficient to enable them to obtain foreign currency having an established value. This is precisely the method now pursued by the Austrian, German or Polish manufacturer who is dependent upon the importation of foreign raw materials for the conduct of his business.

4. The extraordinary currency inflation of the various late belligerent governments of Europe is setting up new and wholly factitious channels of world trade. Temporarily at least the trade of those nations having currencies nearest to so called parity is being violently wrenched from them by the industrial nations which are recklessly hurrying along the road to extreme inflation and financial ruin. The reason for this lies primarily in the fact that the purchasing power of the depreciated currency is for a time much greater at home than abroad during the progress of its depreciation, particularly when prices of vital necessities such as food, housing and transportation are controlled and fixed below cost of production and the government absorbs the loss by the further issue of currency. In other words, the home currency will buy more labor and domestic raw material combined for export purposes than the quoted international exchange would lead one to believe.*

*"Owing to the rise in cost of living, agitation for higher wages is general, but strikes are few, as 'boom conditions' enable manufacturers to grant demands of their laborers. Socialists have presented a plan for compilation of regular Federal wage statistics. At the beginning of November the average of nominal wages had risen thirteen-fold compared with 1914."—*Berlin Correspondent New York Times, November 21, 1921*. At the same time the international value of the mark in which the wages are paid was but one-seventieth of its value in 1914.

As to Germany, the question is frequently asked, is her progressive inflation part of a sinister scheme to avoid obligation, or, as stated by the German Minister of Reparation, a catastrophe resulting from the sale of the mark as a commodity in order to obtain the necessary means of affecting the reparation payments? In either case, where will it all end, and how can this miserable business be brought to a conclusion? An English economist, Mr. A. E. Zimmern, in a recent article on "Greek Political Thought," says:

"France, emerging nerve-racked from a fifty years' obsession and a five years' nightmare, half dead with sorrow and suspense, yet too proud in victory to own her weakness, looks round, half defiant, half wistful, among her allies for one who can understand her unspoken need, and longing with all the intensity of her sensitive nature to be able to resume, in security and quietness of mind, the arts and activities of normal life in which she has been, and will be again, the Athens of the modern world: Germany, tougher in fibre than her western neighbor, yet equally shaken and exhausted: a land of sheep without a shepherd, rushing hither and thither seeking a direction and a Weltanschauung, her amazing powers of industry and concentration and her rich and turbid life of feeling running to waste for lack of channelled guidance."

How can any nation be expected to clean house and start afresh until certain essential conditions have been established? Dr. Seligman does not undertake to answer these questions. They belong to the realm of politics and statesmanship. How, for instance, can France be expected to relax her hold upon Germany until she, who for over forty years lived under the constant fear of invasion; who suffered most when war occurred and invasion came; until she feels a sense of security either through an effective international guaranty or otherwise? Are the statesmen of the Allies equal to the

task? Can they lead their peoples to adopt a course of conduct which, though vitally necessary, may seem (but only at first blush) inimical to self-interest, involving as it would the surrender of undoubted rights and the assumption of new and unaccustomed obligations?

The peoples of Europe are still a-quiver, but in spite of righteous anger, in spite of apprehension which cannot easily be brushed aside, deeds have been performed and words have been spoken which we sincerely hope bear the promise of better times: The Italian families welcoming, on the very morrow of the armistice, the little famished children of Austria, or M. Briand recognizing in Washington Dr. Wirth's loyalty and frankness, are gestures of widely differing character, significant in showing that real peace is far more than the mere formal signing of a treaty. Neither should it be forgotten that in Spa, in Wiesbaden, in Geneva, the first bricks have been laid for the reconstruction of what Signor Nitti so happily termed "a whole Europe." *Bis vincit qui se vincit in victoria*, he twice conquers who conquers himself in victory.

*
* *

Dr. Seligman's paper is, it must be admitted, not conducive to optimism, but to our mind its austere and clear outlines convey a lesson which should not be missed. The nations surveyed have all, at various times, suffered from the most deadly financial and economic diseases, but they all survived, in fact all of them were flourishing and prosperous on the eve of the Great War. Less than one hundred years after the stupendous madness of the assignats, France becomes Europe's banker; half a century after the Risorgimento Italy develops into a power of the first rank; Germany a *geographischer Begriff* at the beginning of the nineteenth century, is an ironclad em-

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pire at the beginning of the twentieth. . . . The greatness of nations is not to be found solely in metallic reserves and balancing budgets: The iron fields of Lorraine, the beauty of Paris, the intelligence and courage of the men and women in the fields of France, are not all these to be put down to France's credit in the Grand Livre de la Dette Publique? Italy is electrifying her railroads and ere long the water-falls of her own Alps and Apennines will give her all the power she needs and free her from servitude to the English collieries. So astounding an industrial resurrection may well lessen the hardships following in the train of the reëstablishment of the depreciated currency. Germany is confronted with serious perils; given every possible consideration under the existing treaty, the measure of her recovery depends largely upon the qualities of order, thrift and discipline to which her nationals have been trained for generations, but to this must be added a corresponding loyalty to her new political régime which thrusts upon the people wholly unaccustomed civic responsibilities.

Europe must be given a true peace capable of bringing back faith in the future, without which her most strenuous efforts must remain sterile. Europe cannot live without a peace full of serenity, without good-will among its several nations; there is not one nation in Europe which can live without the good-will of the other nations. Talleyrand said: "*Pour moi, les vrais intérêts de la France ne sont jamais en opposition avec les vrais intérêts de l'Europe.*" Thus spoke the greatest master of French diplomacy, and his splendid dictum should be the motto of every diplomat, of every statesman in the world: "The true interests of my country are never in opposition to the true interests of the world."

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