

THIS IS INFLATION

You're not afraid of it? Then read this eye-witness account of inflation rampant

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Today America is shadowed by the danger of a deadly economic disease—inflation. Everyone fears it but only in a vague sort of way. Some people understand it in the abstract. But only a handful of Americans really know what inflation is and what it can do to wreck a country.

I know—for I lived through the most disastrous inflation the world ever knew—in Germany after World War I. I saw the mark, the German monetary unit corresponding to the British shilling or the American quarter, tumble down and down until you paid as much for a loaf of bread as you would have paid for a limousine before the inflation started.

I saw elderly people, living on fixed incomes from investments, reduced to beggary, while speculators in high places took the opportunity of wiping out their debts at the expense of the public. In such a setting of bewilderment, topsy-turvy values, and plain panic, the groundwork of fascism was laid—with its doctrine of fury and blind obedience to a "strong man."

But before I go any farther, let us examine the term "inflation" and see what it means. There are two kinds of inflation, due to different causes, but in the end the result is the same—you wake up in the morning to find that the money in your pocketbook is worth less than it was when you went to sleep.

One kind of inflation is caused by printing paper money with nothing to back it—no gold or silver in the government vaults to guarantee that the holder can get anything for it, if he presents it to the government treasury, but more paper of the same kind.

PRICES BEGIN TO RISE SLOWLY AT FIRST

The other kind of inflation—which now threatens the U. S. A.—is not quite as deadly but can cause untold hardship and suffering among the most hardworking and thrifty people of the land. This is due to scarcity of consumers' goods—clothing, food, housing, and everything else we need to live—at a time when there are jobs for all in war industry and when people have the money to buy what they need and a few luxuries besides. If there is no government control of prices—and consequently of wages—prices will soar up and up. The dollar will be worth less today than yesterday, tomorrow will see it able to buy still less.

But let me show you inflation in action, as I experienced it in the 1920's.

Inflation in Germany really started on the first day of the war in 1914 when the government voted a credit of five billion marks. This was not a loan. And it was not backed by



The Nazis Burned his Books

German-born Emil Ludwig started as a foreign correspondent. His biographies, *Napoleon* and *Goethe*, made him famous. Hitler burned them, and Ludwig took it as an honor. He is now a dollar-a-year man in Washington, broadcasts to Germany.



anything except the overbearing self-confidence of the old-line Prussian military caste who held the reins of government in their collective iron fist—a legacy from the old "Iron Chancellor," Bismarck.

At once prices went up—but just a little. The German people, who were fed with false war news by their general staff, did not heed this small price rise. They didn't know what it meant, but in the next few years they were to learn a bitter lesson.

When, after six weeks of victorious advance, the German army met its first great defeat—of which the people were told nothing—the mark fell ten percent on foreign markets.

"Quite natural," wrote the government-controlled papers. "We are short of raw materials, that is why prices go up. We are under blockade—that is why the enemy undervalues our mark."

PRINTING PRESS FINANCE

And on fine, new paper with beautiful engraving and carefully blended inks, the German government continued to print new bank notes. It had to. The soldiers had to be paid. Supplies had to be bought. The money had to come from somewhere. It came from the printing presses. There was no promise to redeem the notes in gold or silver—nothing to make these lovely specimens of the engraver's art "money" in any real sense of the word. But it fooled the people and kept them dutifully in line as loyal subjects of the Kaiser.

After two years of war the mark had only half of its pre-war value. After four years of war German defeat was inevitable—an armistice had to be asked for in 24 hours. And the mark went down a little more.

But now the world, especially America, had great confidence in German efficiency in peace-time. It took the mark two years to fall as low as one tenth of its former value.

Then in 1920 the German public had a great new experience—it discovered the American dollar as a means of speculation.

Previously few Germans had gambled on the exchange—it was not in the German tradition. "I'd rather sleep well than breakfast well," an old proverb had it, and the lure of something for nothing had not caught them. But now, with the whole economic system in turmoil due to the inflation of the mark, the people turned in desperation to gambling with foreign exchange rates.

The day began with the question, "How is the dollar?"

The tram conductor asked the passenger, opening his morning paper, "How high is it?"

"Still going up?" asked the author, settling his accounts at the cashier's desk of a newspaper. And the dollar rose and rose—while the mark kept falling.

In the summer of 1922 the dollar, which had once been worth four marks, could now be exchanged for a thousand! In December of that year it was worth 7,000. And while the exchange value of the dollar rose, the national debt of Germany rose with it. In the summer of 1923 it had risen to 57,000,000,000,000,000,000 marks!

A BILLION MARK NOTE IS ISSUED

In this tense summer the dollar fever reached a height that foretold collapse. Everyone waited for the death of the mark. The government, in the hands of the most ruthless big-time speculators, continued to print paper money. Soon a one billion mark note was in circulation.

Educated Germans made fun of the cosmic sums they now had to carry around to pay train fare or buy a newspaper. A street car ride in those days cost more than a long train trip cost in more normal times. For two American dollars a month you could rent not only an apartment in a fine villa—but pay for servants besides. The best tailor in Leipzig would make a fine tuxedo and full dress suit for what the cheapest work clothes cost in America.

Wage earners who were paid by the week or month saw their incomes crumbling to pieces while they were earning them. A man who formerly earned 50 marks got a million marks on the first of the month. In a few days they were worth only a third of that. Soon all employers were forced to pay off every day. A worker lost hours every day getting his money in a long line at the cashier's window and then lost more hours in line to buy food which had to be purchased as soon as possible—before the mark had tumbled to a new low. For carrying money, pocketbooks had long since been given up for valises.

On the street people were good-natured enough to clap one another on the back and congratulate each other on having finally risen to be "millionaires."

"What shall we order?" my friends asked in a restaurant. "They





END OF CURRENCY INFLATION SAW BILLIONS OF MARKS Baled FOR SCRAP

say they have chicken. How much? Never mind—two million marks a portion." The place was crowded, the waiter absent. When he finally arrived he began to correct the prices on the menu. The dollar had gone up 800 points. Now chicken was four million marks a portion.

"All right—bring it along," we told him.

"No more chicken—those Americans over there got it all. They paid in American dollars. For Germans, only omelet is left."

"And how much?"

"Four eggs—two million marks."

Business firms finally ended by paying off three times a day.

Farmers barricaded themselves behind their hedges, ate their own produce and would have no dealings with the constantly falling mark. Their reaction was natural enough yet it brought suffering to thousands of city folk.

To get food, people would take their household belongings—lamps, rugs, pictures, clothing, bric-a-brac, jewelry—anything which might by chance appeal to farmers who had provisions, and canvass the countryside, offering these articles in exchange for a few eggs or a lump of butter. Thus the civilized medium of exchange, currency, was abandoned and the German people were driven back to the most primitive sort of commerce—barter.

Goods became the only measure of wealth, and hoarding began—not the hoarding of a few bags of sugar or a shelf of canned goods,—but hoarding on a grand scale. Anything a man could get his hands on was hoarded against the day when its barter value would enable him and his family to eat or replace worn out clothing.

While fortunes in cash were practically non-existent, financiers juggled for power. A wholesale hoarder would exchange commodities for control of a business firm. A freight carload of typewriters was a treasure which might give its owner control of an entire company. A carload of paper bags, of light bulbs, of gloves, if hoarded long enough, increased its value so tremendously that that hoarder could use it as an instrument of great economic force.

The largest industrial firms contracted only on the basis of foreign values, although this was against the law.

The climax was reached dramatically when the news began to spread that 30,000 men working at the government's note printing plants were on strike—demanding their wages in gold marks. The state-printing houses were besieged by the crowds and had to be defended by soldiers. People were afraid that tomorrow there would be no more notes and they stormed the banks that still gave them credit.





THIS GERMAN HOUSEWIFE EVEN USED GOVERNMENT NOTES TO KINDLE HER FIRE

I saw a fat man wriggling out of a crowded bank entrance—followed by his three small boys. Each of them carried a wash basket loaded with packets of bills—the last rations of paper billions. They laughed as they got into a dilapidated hack with their "treasure"—even the bony horse seemed to enjoy the grim joke. And all of us knew that the crash was coming—each day brought it closer.

The bottom was already in sight—when the government's currency, having no redemption value, was worth nothing but its weight in scrap paper! Bales of government notes representing mythical billions of marks were actually sold in this way!

As long as this fantastic monetary system enabled us to buy our daily bread we carried on willingly. But real tragedies lay all around us. Millions of Germans had been living on dividends from stocks and interest from bonds and annuities. Women who had no business training and had inherited a modest but seemingly secure income from a husband or father were penniless. Many had their savings invested in mortgages. What an incredible opportunity for the debtor to get rid of the mortgage!

He quickly slips some bank notes of 100,000 paper marks into an envelope and announces to his creditor that he herewith refunds his debt with full interest. He seals the letter and laughingly informs his family—"The house is ours."

Next morning an old lady in the neighboring town puts on her glasses to open an amazingly bulky letter. She sees the notes, reads the letter, and knows that from today she is a pauper. The enclosed money is just enough for four rolls at the baker's.

Months went by before laws were passed to stop such injustice, and even they guaranteed only eight percent of the creditor's claim.

Suicides increased rapidly. What was an old person to do? Relatives were impoverished as well and the future seemed like an abyss.

FIELD DAY FOR FOREIGNERS

An American tourist, paying in precious dollars, could buy a baroque palace in Vienna for \$500. For a dollar a day the American could live in luxury at the swankiest hotels.

Foreigners came, bought and conquered. Whole city blocks of valuable property changed ownership for a few dollars or pounds sterling. They went for a song—in foreign currency, backed by metal. And it is not surprising that such a situation would cause a great deal of anti-foreign feeling in the nation. Hitler's propaganda in later years that the Fatherland was surrounded by a "ring of implacable enemies" could easily be believed by a nation which had seen foreigners "take it over," simply because the currency of their countries had not



been debased. Then began another craze, similar to speculation in the dollar.

Germans began to remember distant relatives in America. There was a frenzied writing to other relatives and friends for addresses. Then the phrasing of a tactful letter to be sent across the sea. An uncle would send a five dollar note. "Hurrah! We can live a month! Five months!" But then tragedy—for the bank would only change the bill in marks. "Why didn't the old fool send us five one dollar bills?"

The German frontier towns were teeming with persons trying to smuggle foreign currency into the country, over the Swiss, Dutch and Danish borders.

The Swiss border passed through Lake Constance. I knew a boy who lived on the lake and who owned a row boat. One night he rowed across to Switzerland and sold three of his father's ducks for five Swiss francs. With this as a beginning he had made enough at the end of two months to buy the small house in which his family had for years rented a single back room.

HUGO STINNES BUYS UP GERMANY

People became rich overnight—people who found ways to bring foreign currency over the borders of Germany. Most famous—or most infamous—of these was the industrialist, Hugo Stinnes.

For what the boy did with the ducks on Lake Constance, Stinnes did on a tremendous scale, perpetrating the greatest fraud in the history of the world up to that time, and all because the currency of the nation had lost its value.

Stinnes began as a mine owner. Soon he began to buy factories, railways, hotels, theatres, newspapers, castles, cigar factories, oil plants, sugar refineries.

His trick was simple—he borrowed a few billion notes from the Reichsbank, sent them across the border and bought foreign currency in Amsterdam and Zurich. After three months he repaid the billion notes, worth many times less. While his country was falling to ruin he became the nation's richest citizen, cloaking his speculations in patriotic phrases which no one dared to contradict. His money had the power to break all laws made in defense of the mark.

While a poor school teacher, who had tried to bring a Swiss hundred franc note over the border in the sole of his shoe, was caught and put in jail, Herr Stinnes' millions flew across all borders and landed wherever he planned.

His ill-gotten fortune was short lived, as it turned out, for of more than 500 enterprises he owned at the time of his death, not a single one existed a few years after.

In November of 1923 I was asked to lecture in Cologne and for my fee I asked 80 gold marks, to be counted according to the dollar value of that evening. The secretary followed me when I left the lecture hall and lifted a hand-bag, stuffed with mark notes, into my taxi, saying that these billions represented 80 gold marks. Riding back to Berlin in the train I felt that my wife and I would at least be able to eat for the next month.

When I got home the first thing I asked my wife was, "How is the mark?"

She shook her head. "The mark is dead," she said. On this morning of November 15, 1923, the anger of the people had at last forced the government to create a new, stable mark. Printing of the old paper was stopped and the new mark was valued at half of the old mark. The contents of my hand-bag for which I had traveled two nights and lectured an hour were worth now only 40 marks.

GERMANY'S EXPERIENCE IS A WARNING

I have offered these recollections as an object lesson to the people of the United States on what inflation can do. One of its most insidious features is that it begins so gradually, yet moves with incredible speed as it gains momentum. I do not for one moment believe that currency inflation—by the printing press method of financing the country—will strike America.

But the other kind, caused by plenty of money and not enough consumer's goods, is an ever-present danger.

It, too, can sweep away your savings and your property overnight. It can bring untold misery and chaos. One of the surest ways to get it started is to spend money for things you don't need, just because it is "burning a hole in your pocket."

Spending, when there is a scarcity of goods, is the trigger that releases inflation prices. Saving money, when goods are scarce, is the counter-attack that will keep prices under control.

The government of the United States cannot give an inch to inflation. For if the spiral once gets started, all the victories we accomplish on the battlefield cannot save us from a terrible economic defeat at home.

