PFP
Wealth Management

3 Windsor Court
Clarence Drive
Harrogate, HG1 2PE
01423 523311

Lion House
72-75 Red Lion Street
London, WC1R 4FP
020 7400 1860

www.pfpg.co.uk

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Money-printing: a warning from history

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

- John Maynard Keynes, 'The Economic Consequences of the Peace', 1919.

Last week, on a sultry summer's evening in London, I had the pleasure of attending the re-launch party of Adam Fergusson's 'When Money Dies: the nightmare of the Weimar hyper-inflation'. This über-cautionary tale was originally published in 1975 by William Kimber & Co. Having fallen out of print, second-hand editions were changing hands, amongst those who could locate copies, for several hundred pounds each. It has now, happily, been republished by Old Street Publishing Ltd., for the very affordable price of £12.99. Suffice to say that every reader of this commentary is gently encouraged to purchase a copy.

That said, reading, and digesting, 'When Money Dies' is not particularly easy. In financial terms it is the equivalent of a snuff movie. For the sensitive of spirit, the experience is truly heart-rending. For this is not a fictional phantasmagoria; the extraordinary sequence of events within it genuinely happened, to real people.

As those schoolchildren who are still taught anything are told, the seeds of the Weimar hyper-inflation, like those of the Second World War, were sown in the ashes of the First World War, and most pressingly by the terms of the Treaty of Versailles. The Allies, and most notably the French, were determined to bleed Germany dry. Be careful what you wish for..

Germany could never hope to make good on the burden of Allied reparations forced on her. But few, Keynes perhaps apart, could have foreseen the extraordinary sequence of events that were to culminate in the economic firestorm of Weimar 1923, when sovereign allegiance to the printing press caused an entire currency and national economy to implode upon themselves. A few examples from Adam Fergusson may convey in some small way the surreal horror of what came to befall the largely unwitting populace, and political base, of Germany:

"In October 1923 it was noted in the British Embassy in Berlin that the number of marks to the pound equalled the number of yards to the sun. Dr Schacht, Germany's National Currency Commissioner, explained that at the end of the Great War one could in theory have bought 500,000,000,000 eggs for the same price as that for which, five years later, only a single egg was procurable. When stability returned, the sum of paper marks needed to buy a gold mark was precisely equal to the quantity of square millimetres in a square kilometre. It is far from certain that such calculations helped anyone to understand what was going on.."

A young Ernest Hemingway happened to be travelling, with his wife, through history in the making. [The following is the anecdote of the many from Adam Fergusson's book that, perhaps perversely, I find most moving of all.] Working for the Toronto Daily Star, Hemingway crossed the frontier from France during the monetary horror and had the following experience:

"There were no marks to be had in Strasbourg, the mounting exchange had cleared the bankers out days ago, so we changed some French money in the railway station at Kehl. For 10 francs I received 670 marks. Ten francs amounted to about 90 cents in Canadian money. That 90 cents lasted Mrs Hemingway and me for a day of heavy spending and at the end of the day we had 120 marks left !

"Our first purchase was from a fruit stand.. We picked out five very good looking apples and gave the old woman a 50-mark note. She gave us back 38 marks in change. A very nice looking, white bearded old gentleman saw us buy the apples and raised his hat.

'Pardon me, sir,' he said, rather timidly, in German, 'how much were the apples ?'

"I counted the change and told him 12 marks.

"He smiled and shook his head. 'I can't pay it. It is too much.'

"He went up the street walking very much as white bearded old gentlemen of the old regime walk in all countries, but he had looked very longingly at the apples. I wish I had offered him some. Twelve marks, on that day, amounted to a little under 2 cents. The old man, whose life savings were probably, as most of the non-profiteer classes are, invested in German pre-war and war bonds, could not afford a 12 mark expenditure. He is the type of the people whose incomes do not increase with the falling purchasing value of the mark.."

This anecdote perhaps best summarises the crushing and unpitying aspect of hyper-inflation. Those citizens who had been among the most virtuous, who had saved and patriotically supported their country by buying its debts, were wiped out in the financial holocaust. [Someone may care to send a copy of the book to 'Sir' Fred Goodwin, if they can find out in which foreign bolt-hole he is currently sheltering from his fans.]

The Weimar experience is cautionary, and perhaps, as Adam Fergusson suggests, its protagonists genuinely did not understand the hyper-inflationary mechanisms – money-printing without limit – by which they forcibly impoverished a country and above all its middle class (then, as now, economics was not a science – if science at all – well understood). But that excuse will not serve for those administrations determinedly taking us down what looks optically like a very similar path. Deficit financing; quantitative easing; monetary stimulus – these are all Orwellian weasel coinages that barely disguise the reality at the heart of current administrative desperation in the face of a colossal financial crisis: the somewhat forlorn hope that ongoing money printing will mysteriously solve, other than to extinguish the real value of, a super-abundance of both corporate, individual, and sovereign debt.

But that would be getting ahead of ourselves. The immediate threat is not inflationary, but deflationary: broad money growth is contracting across the developed world, and bringing the prospect of recession if not depression in its wake. Yet this does not absolve western central banks and politicians from the required responsibility to save their currencies and economies from both their own malign influence and from that of the bankers, who have displayed much of the same self-serving behaviour as German industrialists did during the Weimar experience. Adam Fergusson's book serves as the ultimate warning against the debauchery of currency in the name of shorter term political expediency. The question is, are the politicians and central bankers of today ready, willing or able to learn anything from such a monstrous historical example ?

Tim Price
Director of Investment
PFP Wealth Management
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Email: tim.price@pfpg.co.uk Weblog: http://thepriceofeverything.typepad.com

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