

Prof. Heinrich Rittershausen

1898-1984

Monetary Theory

An unfinished manuscript

Version V

For better understanding, this special edition has additional explanations, relevant informations and comments by John Zube, who personally knew Prof. Rittershausen and corresponded with him.

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Preliminary note

When I could visit Rittershausen in the eighties, I was allowed to copy some of his essays and manuscripts. Professor Rittershausen always tried to spread his libertarian ideas as wide as possible, in German and other languages. He asked me to go on publishing and translating his writings - even without payment. Many of his ideas are still very important for our time. Among these writings, there were several drafts, versions 1-5 from 1930 to 1952 of a manuscript "Geldtheorie" (Monetary Theory), together with notes and other materials relating to it.

There was a recopy of approximately 80 pages of the last version. I read it at that time and was very much impressed. But unfortunately my copy got lost in the mail. The last version can now only be found among manuscripts and papers spread on 20 meters of bookshelves, not yet indexed, in the archives of Cologne University.

Thus, presently, nothing else could be done than trying to reconstruct this version. However, in the briefcase of the 5.version still e.g. pages 40-51 are missing; many handwritten notes are on bad photocopies and sometimes illegible. And often, it was uncertain where they should be placed. Prof. Rittershausen had changed the structure and page numbering many times. So my reconstruction efforts were not easy.

I add some earlier handwritten notes, often read from grey on grey photocopies. Unfortunately, I cannot guarantee that I always correctly deciphered his handwriting, that contained abbreviations in many cases.

Rittershausen had moved so many times that he had probably lost several writings, too.

After the recopy had been finished, Rittershausen and his assistants probably did not worry any longer to order the previous versions. They could even have thrown away some of it.

If I remember right, clearing as the basis of all means of payment and payment methods was emphasized in the recopy still more than in the version available here. Please also see the notes added in 1954, 1956 and 1972, appended in this reconstructed manuscript (presently only available in the German version). His opinion about monetary theory had kept changing over time.

Not all my notes of the German version have been included here but just a selection by my editor, upon my own advice to do so. Perhaps still too many of them remain here (Italics, in brackets, blue).

If Prof. Rittershausen had been able to finish this work, giving it its final touch, many of these notes would then, probably, have been, superfluous. Whoever should, nevertheless, be interested in all of them, in their German version, should look them up on www.reinventingmoney.com

Alas, there still many of my typos remain. My part-excuse is that I have already eliminated thousands. Here, in this English version of these notes, some slight corrections and additions have been made.

Please consider the whole discussion of this subject as still being merely a work in progress, inviting corrections and comments. With that thought in mind, one should take some minor flaws in one's stride. Nobody is perfect. Not even Rittershausen and U. v. Beckerath were. Nor would they have claimed to be perfect in their statements.

If their very great talents and their all too limited working conditions would have permitted them to be perfect, then they would have finished all their writings and all of them would have been sufficiently published.

John Zube, March 23rd, 2006

Definitions

Money

is set-off (clearing). It can appear in form of clearable claims or certifications of such claims.

The value standard of a currency

is the means of price expression; it is either imposable or accepted out of self-interest by the members of a payment community and it is highly estimated as a hoarding means.

Introduction

We see of late international efforts to give up an independent monetary theory as a subject of scientific research and to integrate it into the general economic theory. Obviously, this can only be done by treating what is merely a single teaching, e.g. the theory of the expansive and contractive effects, which applies only to the special case of fixed rate (legal tender or forced currency) money, as we will call it here *(For me terms like "fixed rate" and "legal tender" are still much too polite, camouflaging and beautifying terms. I find "forced rate" and "cours forcé" to be much more honest and descriptive. / A fixed and stable value is not maintained by this "fixed rate". Legal tender enforces merely a fixed and nominal but not the real and original market value of a legal prescribed and exclusive value standard. Because of it a sound value standard may no longer be freely applied. Instead, all such value standards are coercively replaced by a paper, abstract and usually already deteriorated and more and more depreciated "value standard". The "fixed rate" fixes nothing else but a great and legalized fraud. It enforces injustice and losses upon all creditors and, lastly, also upon all debtors, although the latter do initially profit from this injustice. - On this see my essay on my main web page, in its appendix: "Stop the \$ X00 Million Legal Tender Crime": <http://users.acenet.com.au/~jzube>). Thereby, all other historically and presently so important problems would be disregarded and would be withdrawn from research e.g. the peculiar agio-phenomena on the rare metal coin markets, the changing gold price development in free or half-free markets, the famine in India due to delivery strikes of Indian farmers, the Maria Theresia Thaler as an oriental coin of the present, the various disagio (discount) phenomena of most currencies of the present, the question of credit restrictions etc ... Therefore, one cannot consent to this proposition.*

Apart from that, it must be admitted that the world's monetary theory finds itself in a lamentable condition. The restriction of money's definition to physical objects, the non-consideration of book money, the so far persistent irresolvability of the problems money supply and circulation speed, just to mention some questions, has limited the theory's achievements very much and has exposed it to severe criticism. While monetary theory had reached some kind of developmental climax at the time of Knapp, Knapp, nevertheless, through his confusion of terms, himself has become one of the originators of its decline. By treating private monetary phenomena like the private banknote under the title "State Theory" he overshadows his most valuable research results. The task consists in carefully preserving his valuable contributions.

Above all, it is necessary to prove that behind money, there hides the central phenomenon, which cannot be captured quantitatively, but merely resembles, to use a parable, the electrical current or the process of legal thinking. While the quantitative and physical arrangements of this clearing principle in today's historical money coins, money certificates, bank notes, etc. will have to be exactly observed, they will have to be regarded as physical only conditionally and indirectly.

The aspect of the value standard or the value unit, in whose neighborhood we find hoarding and accumulation, will have to keep completely separate the phenomena of transfer processes.

Apart of both these two, the rate phenomena of money and those of its issue and reflux will take up much space in our examinations.

Already 20 years ago, I published substantial parts of my theory. The years after 1933 made me stay mum and forced me to change over to price theory and the science of finance. However, in the meantime, I always had the impression that my cognitions, based on broad experiences in banking practice as accounting general and aided by intensive theoretical research, should not be withheld from the public, even if, once again, they are released too early, because these thoughts can, perhaps, become important later on (*now they are largely buried in the archives of the library of the university of cologne and not yet catalogued*).

In this I have much to thank for my friend Ulrich of Beckerath, Berlin, as well as Mr. Henry Meulen, London.

Rittershausen

Chapter 1: The functions of money

§ 1. The function of payment and clearing

One tends to assume that a certain uniform 'money supply' (quantity of money or money circulation) corresponds to the 'goods' supply (quantity of goods and services etc. that are ready for sale), and this conception is usually refined by the terms 'velocity of money' and, on the goods side, 'sales volume'. This concept of money supply (quantity of money or money circulation) has obviously been inferred from the historical-sociological form of money, i.e. coins and notes, whose quantity was measurable. However, historical-sociological statements can state nothing that is certain about the theory. Money and banking have taken a completely different development in the meantime.

We do not want to speak here about the fact, that through enterprise money and clearing, by their various kinds, offer a rich variety, so that the hypothesis of a uniform quantity of money amounts to the use of a too poorly characterized theoretical instrument. Here we will deal at first with the quantitative considerations.

There are new phenomena, which are not compatible with this conception. The phenomenon of cheque money (giro account money, current account money, non-cash payment systems) has to be dealt with, without throwing the significant truths of the older monetary theory overboard. The concept of account money (deposit money or deposit accounts), with which one wanted to express the newer developments, still includes a remnant of notions of materialness and of the participation of this kind of money in the hoarding process, since wealth is invested in these accounts. The quantitative money concept, however, can no longer cope with the daily practiced procedure of skontration (*clearing, settlement, offsetting, balancing, are much more common terms; even in German this term is only used by professionals, like Rittershausen*), in which mutual claims are simply cleared, i.e. cancelled or subtracted from each other, neither with the retrogressive transfer, that would not move a claim from the debtor to the creditor, but rather a debt, thus something negative, from the creditor to the debtor. (*In this case compulsory acceptance and value are quite rightful. A debtor must always fully recognize his due debt certificate as a means of payment against himself.*) (*Practical example: The use of IOUs, issued by the debtor, as means of payment, by the last holder, as means of payment against the debtor. Using only abstract terms, outside the range of experience and common ideas, tends to confuse.*

For Rittershausen it was easy to think in such terms and to use them, since he practised such transactions often in his business career or studied them in the actions of others.) (Here one should take into consideration that, apart from time differentials, all debts and credits correspond to each other. They are, so to speak, only different sides of the same coin. That means, that their total volume is as unlimited - or only as limited - as the total production and exchange potential and that, nevertheless, all these vast production and exchange possibilities could, theoretically all be settled via clearing, without a single coin or banknote or State paper money certificate being used and moved at all, and this while using sound and freely chosen value standards to price out all goods, labour, services and debts. This idea of quite free clearing, as far as exchange media or processes are involved, combined with quite free value reckoning, is still so revolutionary, that few have sufficiently comprehended it and the law has certainly not caught up with this concept, nor have any monetary and clearing practices so far quite realized it. Moderate time differentials could be bridged in this way, too, without depreciation. Instalment payment obligations could also be settled in this way. But medium and long term future account or certificate values would have to bear interest or would lead to corresponding losses in their market values. Sooner or later the notions of monetary issue and clearing freedom will brake the chains of legalized monetary and banking despotism. The question is only: How to accelerate this process, how to initiate it and to assure that it will take place as soon as possible.)

Generally, one can comprehend the total payment transactions of a country in such a way that one divides the entire population into two groups: the creditors and the debtors, according to the two-sidedness of all debt/credit obligations & entitlements. Since nearly everyone is both creditor and debtor as well, almost everyone will have to send a proxy into the other group. Claims and debts will thus be presented by each group to the other group, and both groups will present exactly the same amount to each other. Since only due claims are applicable, one can all at once have all due or soon due claims and debts expire by simple declaration according to § 387 of the German BGB (Buergerliches Gesetzbuch - civil law book)

on "Aufrechnung" (set-off, clearing, settlement). (1) The money supply would then be zero. Payment in pieces, metallic coins or paper notes would be completely displaced. "Then money would be abolished, because giro payments (account transfers, non-cash-payments) use no money!", thus G.F. Knapp continues (3), who raises the same question. He continues to say: "However one need not be worried. Indeed, money would be abolished, however, what remains would be payment. Our economical condition does not depend upon money (*in the meaning of cash money*) although we like to term it a monetary economy.

(1) Civil law book (German Civil Law, "Buergerliches Gesetzbuch: BGB.):

Set-off (Clearing, Settlement) *(There are many more paragraphs on this in the older German Civil Law of Prussia: Das Allgemeine Preussische Landrecht, of the late 18th century. According to Bth, some of the older paragraphs are better. Skontration is also dealt with there, in many paragraphs, as if it were something quite different from clearing, balancing, set-off and debt and credit settlements. I will not attempt to go into details here and have elsewhere reproduced at least some of these paragraphs, digitized. - It would be nice if someone undertook a thorough examination of the good and bad aspects of the civil laws of all countries on clearing, using the older legislation as well as the newer ones. Perhaps one would then discover some versions that are good and yet still not accepted by most countries or even consistently applied in the country where they exist. E.g., sound commercial bills of exchange, intended for clearing only, instead of redemption in rare metal coins or in government legal tender, are not clearly allowed in the German legislation, not even after metallic redemption has long been abolished and legal tender paper money has been several times severely inflated.)*

§ 387

When two persons owe services of similar matter to each other, then each party can set off his claim against the claim of the other party, as soon as he can claim the service due to him and as soon as he can provide the service he is obliged to deliver.

§ 388

Set-off takes place via declaration towards the other party. The declaration is ineffective, if given with preconditions or a termination clause *(In other words: It must be unconditional, apart from both obligations being due or soon due and also more or less freely transferable).*

§ 389

Set-off has the effect that the claims, as far as they align with each other, become extinct by that point in time, at which they meet with each other as suitable for clearing

§ 391

Set-off is not excluded by the fact that there are different locations for service provision or delivery for these claims.

§ 395

Set-off against a claim of the Reich or a Federal State as well as against a claim of a municipality or another local federation is permissible only if the service has to be delivered to the same payment office with which the claim of the one who is clearing, has to settle (*how bureaucratically absurd this last paragraph is was demonstrated to me through the experience of an aunt, who had a small stationer shop in Berlin and was almost driven to bankruptcy through tax debts - because she was not allowed to clear her tax debts against the much greater claims she had for deliveries to State schools, claims long overdue and still not paid. - U. v. Beckerath pointed out that in the much older General Civil Law of Prussia (Allgemeines Preussisches Landrecht) clearing was much more extensively dealt with and, perhaps, also more correctly, economically. So far I have not seen a paper on this. I do possess the 5-volume edition of 1794, which in 1957 had cost me only 20 DM. The corresponding paragraphs can mainly be found in section VI: Of Compensation, par. 300 – 377).*

*(A disastrous clause for all clearing with public authorities, which **prevented** most clearing in that sphere. Example: The wife of my uncle Erich, who ran a small stationary store, which supplied local schools and had long to wait for payments from them, was not permitted to clear her claims against these public institutions, financed out of taxes, against the taxes that were imposed upon her, for these and others of her sales. Thereby she was almost driven into bankruptcy. At the same time, there were **large** firms, with thousands of employees, owing much in taxes and social security contributions. But **they** could threaten with the political consequences if they were driven to bankruptcy, with corresponding large dismissals and increases in the unemployment figures. And so often **their** large debts were cancelled, while many small business firms were driven to bankruptcy, because their closure involved in each case only a few persons, i.e. would not be making headlines. That was one of the causes of concentration of business in a few large corporations. Another was: The small firms, although quite sound, otherwise, were not considered credit-worthy by most banks, while large firms, even though economically unsound, were considered to be quite credit-worth. To some extent the large firms (big business) were thus tax exempt and exempt from their social insurance contributions! A friend of Egon Kortmann, with whom Beckerath also corresponded extensively, suffered under the same difficulty with the bureaucrats and their legal position and practice. Being employed in the public social insurance in Berlin, I also observed such debt cancellations for the big firms exclusively. The small firms were driven to "the wall", there to be bankrupted, in times of deflation and large unemployment. "Big brother" in action, with his favoritism and political motives. - Why this restriction of clearing with public institutions? Bureaucrats and politicians, administrators and legislators, did not really comprehend clearing and the technique required for it, so they did not freely allow it. They did not know how to arrange it between all public institutions and their debtors and creditors. They were not even able, in modern times, to arrange for a sound clearing in the sphere of taxation and tax payments via a sound tax foundation issue and reflux scheme, although some experience with such schemes existed*

already for centuries. But who bothers to learn from history? Certainly not most politicians, legislators and bureaucrats, in any sphere.)

The same regulations in foreign law books, (paragraphs in brackets):

Belgium (1289-1299), Bolivia (1297-1309), Brazil (1009-1024), Chile (1655-1664), China (334-342), Columbia (1714-1723), Costa Rica (806-813), France (1289-1299), Guatemala (2326-2336), Honduras (1473 1480), Italy (1285-1295), Japan (505-512), Lithuania, Latvia, Estonia (private law 3545-3564), Mexico (2185-2188), the Netherlands (1461-1471), Austria (1438-1442), Panama (1081-1088), Peru (2252-2263), Portugal (765-777), Rumania (1143 53), Russia (129 b), San Salvador (1525-1534), Switzerland (120-126), Spain (1195-1202), Uruguay (1497-1514), Venezuela (1353-1363). In England and in the USA there is only "set off" and "clearing". *(Do really **exactly** the same clauses exist on this in most States or do there exist some significant and valuable deviations from and supplements to them? Quite possibly, the avoidance of economic crises. can depend upon such paragraphs. Where was or is clearing as free as is desirable and possible? Has that already been sufficiently examined?) (As if there were fundamental differences hidden behind similar terms. It least I am not aware of them. Rittershausen may have been, having had in mind, perhaps, special legal restrictions upon the extent of free clearing, specific to particular countries, similar to the above-mentioned restriction of clearing with public authorities.)*

it merely seems to depend on it, because we almost always do carry out our payments by the delivery of money *(or think only in terms of such delivery, although in practice we do already clear much more than we pay in cash)*. This is, however, merely a special case. What is essential is the obligation denominated in standard of value units (1): This obligation, however would not be likewise abolished with the abolition of physically expressed money but would be retained and handled in another way, a non-cash way, or value accounting and transfer and settlement or clearing way."(3)

Knapp thus rightly declares that as a result of the transition of the money supply towards zero (and the velocity of circulation towards infinite) *(infinite speed is not really possible, here, either, as Beckerath points out in one of the recently scanned-in files. If the employee does not*

hoard at all, then the employer will. We can produce and exchange only so much within any work and exchange period. These limited capacities fall far short of unlimited exchange media or clearing exchanges, even when each clearing transaction itself is taking place at zero speed. But the waiting times at payment counters in supermarkets demonstrate that the clearing transaction speed is mostly slower than the speed of handing over cash, including even the giving of change), there would not arise even the smallest disturbances in economic life. A part of the population, those with particularly rich, fast and massive development of claims and debts, namely those people, who frequent or utilize stock exchanges, have known already for generations similar arrangements, the so called "ultimo liquidation" (at least for manually handled pieces of claims and certificates there exists a limitation of their turnover speed, which may be near 1000 turnovers per year. Electronically accounted turnovers may go faster but their speed is not unlimited, either. It is a frequent experience at the cashiers in supermarkets: Those paying with credit cards often require a longer period for their payment to be settled, electronically, than those of the people who still pay in cash, even if they have to get some change back. The speed of light, too, is not unlimited. And for payer and payee, as well as for the computers involved, an understanding and recognition time is required). Naturally, these settlement practices have no unfavorable influence on business. On the contrary, they were rather created because of their favorable impact on the economy. One day perhaps their exemplariness will be recognized and extended to the entire business economy, if they are not yet introduced there. There will be no disturbance of business, because the primary function of money is solution, i.e. the dissolution via mutual cancellation of due commitments. It is clearing that can accomplish this solution in the fastest and most effective way. In contrast to this stands the "control" or "restriction" of the alleged money circulation much favored today. These are not facilitating frequent dissolutions of debt commitments but make them more difficult (U. v. Beckerath often pointed out that the legal claim of creditors to payment in scarce means of exchange, instead of by a clearing settlement, is one of the main causes of crises and that it has to be replaced by a legal and juridical claim to clearing, under conditions that are satisfactory to all involved. He pointed out that the promise of cash at a future date is also a kind of risky speculation in "futures", which fails all too often, one for the commodity called "cash money", which one hopes to be able to obtain in the future, in sufficient quantity. There is a great difference between being **allowed** to pay in gold coins or legal tender paper money, when one possesses enough of these means of exchange and being under legal and juridical **compulsion** to pay with them even when one does not possess enough of them, although one is still able to supply one's goods, services or labor. - In these cases the capable and willing debtor must be free to pay in suitably denominated assignments upon his own goods, services or labor, and this with a discount corresponding to their marketability, one which would satisfy the creditor. The creditor could then discount these clearing certificates at a clearing house or note-issuing bank for more widely acceptable clearing certificates, accounts or notes and these institutions would mediate the use of the clearing certificates of the debtor for payments to him. Although money is, admittedly and usually, much more "liquid" than other commodities are, almost everybody has already experienced periods of personal illiquidity, in which this "liquid" "cash" did not sufficiently "flow" towards him. Only if it has is he sufficiently liquid to pay his debts. The phenomenon of "currency" famines should be studied much more, especially by those, who wrongly assume that trade would automatically and fast enough adapt itself to any temporary reduction in the current circulation of means of exchange, especially gold or silver coins and of 100 % covered certificates for them. Such a rapid adaptation can only be presumed to happen

*under full monetary and clearing freedom, not under any kind of exclusive currency & monetary despotism). According to the sentence, underlined by me through spacing, the basic procedure of today's money and banking practice is the generation of obligations, created by business transactions and expressed in units of value, and their continuous elimination by clearing. This process is neither a question of a "quantity" of money, which emerges or which is created, or which might possibly just be needed, nor a question of a "quantity" of obligations, but it is a question of legal & juridical processes accompanying economic phenomena, which by themselves are not comprehensible in terms of quantities. (In terms of the number of exchanges so mediated, the weight and volume, as well as to total of their prices they can be somewhat measured in numbers, with the usual mistakes in trying to calculate in external trade the supposed "balance of trade" and the assumed "balance of payment", on both of which governmental statistics are very incomplete and misleading, but with regard to the exchange **potential** that could be so mediated, a quantification is presently close to impossible. Even the large stocks of ready for sale goods, in the somewhat free countries, do not sufficiently indicate this potential. They still are only an indication of the limited sales potential under monetary despotism. Even if many prices are still paid in cash, they are not sufficiently measurable by statistics as presently conducted. The cash prices in garage sales and opportunity or charity shops are sometimes ridiculously small compared with those in retail shops for newly produced goods. Yesterday I bought some T-shirts and shirts, some of them quite new, still with the original tags, at only 50 cents each, from one these shops, dealing, predominantly, in second-hand goods. There was no obvious balance, that could be statistically captured, between the value of these goods and the money token equivalents that are circulating. As far as these goods are concerned, they are gifts to the shops, of unwanted goods, and then sold at extreme deflation prices. Only the prices of these goods, when they were originally acquired, somewhat corresponded to the circulation of legal tender money. / Still less so would there have been such a balance, between goods and money, if I had simply swapped a shirt that did no longer fit or please me, for that of some friend or associate, which fitted and pleased me, but whom it did no longer fit or please. / The potential for free exchanges is much larger than the number and value of exchanges that do take place under present conditions. But, since our production and consumer capacity are also limited, this potential, too, is not immediately unlimited, although it may be almost unlimited with regard to future production, increased populations and more free exchange options and increased markets among more and more participants. For instance, only a fraction of the present world population is involved in relatively free enterprise and free exchanges. Even the basic requirements for a decent standard of production and exchange and, thereby, of living, are not regularly satisfied for a very large percentage of mankind. For decades businessmen and investors have dreamed of the sales potential of e.g. the Chinese Market. But it was never fully developed. Nor was its productive potential, making vast free exchanges possible in the first place. / Not "money" is needed primarily for this, although, competitively supplied and retired money issues would be very helpful still, at this stage, but, quite free clearing, accompanied, naturally, by all other economic rights and liberties, even if, initially, only among those who do already appreciate them, individually and in their voluntary communities.)*

(1) Underlining by the author.

(3) (S. 2); State Theory of Money, 1909 in German, translated much later and incompletely into English, par. 8a.

The economic processes, with which we are concerned here, are, on the one side, those, which make up the main content of the economy: production, services, trade, credit, work and consumption. To these must be added taxes and other enforced payments, gifts and other voluntary services, inheritances, procedures within families and enterprises and many special cases. The respective legal occurrences correspond to them:

The generation of obligations from sales contracts, disbursements of loan values and fulfillment of loan contracts, carrying out work contracts etc.

Here it is important that everywhere the quantitative measurability of some physical monetary matter is missing. Further, that the variety of the generation of economic processes does not align with the possibilities of the generation of legal processes. Therefore, it is quite permissible to sum up, statistically and quantitatively, the goods turnovers (goods sales) of a certain period, as it is done for instance for the value added tax statistics. It is, however, well known, that the resulting payment liabilities need not at all be equal with the total sum of the turnovers, because certain commercial stages can be skipped. Likewise, one can add the claims of one observation period that arise constantly for the most diverse economic reasons, but, here, too, one will reach a quite different sum than the one resulting from that statistics of turnover sales or from that which a quantity-theoretician would like. For example, the turnovers of the money market are not included in the turnovers of goods sales. The sum of claims is deceptive, too: It contains the enormous sum of money market claims. Furthermore, the partly immediate, partly subsequent set-off procedures are not subtracted, which already settle a part of the claims right in the beginning. E.g., the internal clearing accounting of industrial trusts, or those, which by clearing prematurely terminate the existence of claims in the sense of monetary quantities. A statistics of the sum of payments, including the sum of clearings, could be set up. However one of the "money supply" is not possible, i.e. of the physical money, including account assets, without consideration of their use to achieve payments or clearings. This sum would include many claims, which their owner would not at all want to settle, a lot of "inactive" money, which is no "money" at all, it thus would miss the point of the problem of the quantity of the money supply. All previous attempts to define the "active" quantity of money had to fail, because the

real clearing process is carried out in time zero, so that all "money", in the sense of claims, rests continuously, although with changing owners.

"Rising money supply" frequently means lack of debt-dissolving, thus insufficient payments, sinking money supply may mean a good liquidation of debt relationships, i.e. more payments (*via clearing*). By adherence to the means of an outdated theory, it is not possible to escape the labyrinth of the scientifically inadmissible term 'money supply'.

With acknowledgement of the possibility of the money supply approaching zero, quantitative conceptions of money must be abandoned. The improved Quantity Theory becomes not refuted thereby but confirmed: the velocity of money becomes infinite (*While the process of free clearing can, in each particular and possible case, proceed with almost infinite speed or electronic speed, the frequency even of such transactions, over a period, is limited, e.g. by productive capacity and consumption requirements. Beckerath dealt with this subject in one of the recently scanned files!*). Thus quantitative discussions for purposes of bank practice and practical economic policy do not become false, but illusory, and the quantity formula becomes limited to the minimum border area, for which alone it seemed to supply results, namely for the world of the 18th or 19th century, in which one could, perhaps, still observe a relevant "money supply". Indeed, money supply is today still of importance, even in the context of the clearing theory, but only secondarily, only with reservations, e.g. with regard to note issues (*especially of legal tender monopoly paper money and ordinary metal coins issued by government mints with at least limited legal tender. Optional and competitive money issues, while sound value reckoning and pricing went on, could at most lead to limited depreciations of some such issues a rather rare occurrence, but could not inflate the price level expressed in sound value standards. If a great excess of them were assumed to have been issued, then their total market value or purchasing power would shrink by discounts, to a total that is not larger than it would be, if they had not been over-issued. Over-issued exchange media would depreciate. Exchange media that are sound and value standards that are sound, would not. But most over-issues and over-issues to a large extent and lasting ones require monetary despotism to occur. - Under full monetary freedom no more notes or money tokens or clearing certificates could be issued, as a rule, than would be readily accepted at par with their nominal value. No unilateral and coercive as well as permanent increases of the "money" circulation would be possible, nor would it any longer be possible to artificially reduce the quantity of exchange media. Without a monopoly for the production and marketing of, e.g., tooth brushes, no shortage of toothbrushes would develop, either, as a rule*). Furthermore, the quantity of money in circulation, in present practice, is not yet = zero, but so many compensatory influences are effective so that any consideration of the quantity of money (*as the supposedly major or even only influence*) will provide false results. (*I am surprised that here he did not distinguish between forced rate money that is also a monopoly money and free market rated monies that are competitively issued and withdrawn from circulation. The quantity of the former type can always have inflationary or deflationary effects*

and can even combine them in stagflations. The competitively issued, free market rated and refusable means of exchange cannot inflate any prices, wages etc. that are expressed in sound value standards. Moreover, soundly and rapidly and sufficiently issued, they can prevent any deflation)

If the basic process, which monetary theory has to discuss, is the dissolution of emerged or, if you will, "created" claims and obligations, denominated in units of value, then the prevailing theory has still to be discussed, which sees the "creation" of money as a privilege of the issuing banks on the one hand, and on the other as kind of an impermissible passion of the business banks. Arbitrarily and without a word of justification, one disregards the whole abundance of the economic and social life, from which arise every hour and every minute, all kinds of monetary claims and obligations just like nature, for instance, lets vegetation grow. One ignores that the banks only *(it "creates", as someone once said, only "requisitioning certificates" while prohibiting the issue of sound other standardized paper money issues, market-rated and refusable, in suitable denominations for the general internal circulation. / In this respect the government acts like a forger, adding worthless paper to the circulation. But it "forges" or deteriorates, by their multiplication, only the own notes or its own paper "value standard", not the of notes of private people or private note issuing banks and their self-chosen sound value standards - apart from the governmental forgeries of foreign notes during war times)* take over the claims and obligations that already had originated before in the business world and in private circles, just like a wholesaler would buy up the production of the goods of large and small firms. The banks are discounting bills, which, after sales of the respective commodities, were drawn before by the supplier on the buyer. They merely grant bank overdraft credit, thus buy receivables, which originated before through previous goods sales of

an industrial company. They merely execute transfers, *(or, under monetary freedom, temporarily exchange large and uneven bills for their own typified and standardized ones, that can circulate more easily)*, or they do take over obligations, which already existed, and which, for off-setting or debiting, they confront with the obligations of their other customers. That wrong theory of money creation through central banks with which we will concern ourselves later, is being developed more and more to a theory of an exclusive "creation" of money by the central banks. For the "money supply", one argues, could by its increase bring about inflation, that is a destruction of the economy. In order to eliminate this danger, one single institution exclusively, they say, would need to control the generation of the "money supply" *(to control the quantity of money or money circulation)*, because, according to these teachings, it would be as dangerous as dynamite. Consequently, private banks, they say, should be denied any option to "create" money.

This is called the demand for the nationalization of deposit money (*and of the issue of banknotes*). This, by the way, is a demand, which was first raised in the communist manifesto of Karl Marx (*and Friedrich Engels; were they really the first? Isn't simply a continuation of the coinage "prerogative" involved, extended to banknotes?*) (1848) as demand No. 5 (*of the ten in its platform*). This is realized only in today's Russia by extremely strict penalty clauses not only against the banks, but against the entire population (*The prohibition of private bank notes existed not only in Soviet Russia and was not only continued in the modern Russia but has existed in most of the world, apart from very few and limited exceptions, already for all too long. Not long after the proclamation of the Communist Manifesto, which explicitly demanded monetary despotism, was also and generally introduced in the formally anti-communist States. / Only the attempts to nationalize also all clearing means, procedures and methods are relatively new*). Fortunately, it was not yet noticed that the main part of those monetary claims does neither arise at the central banks nor at business banks, but in private enterprises and families. The prohibition of private generation of monetary claims or the so called centralization of money "creation" in one note-issuing bank would of course mean the end of any liberal economic constitution, an issue we will address later.

Money, however, is not dealing with the creation of claims, but with a kind of opposite process, i.e. exclusively with the resolution of previously arisen claims denominated in value standard terms. Regularly, this resolution can be achieved through the claim's fulfillment by way of payment or clearing. Besides these two options one has also to take into consideration their finalization through non-payment, bankruptcy, composition, the statute of limitations, devaluation, expropriation and other forms of losses. Monetary economy deals exclusively with the regular fulfillment through payment or clearing.

This is split into different methods: Transfer, commercial bill payment, cheque payment, skontration (clearing), and retrogressive transfer (*e.g. of an IOU*). Transfers can be and mostly are included into the accounting practice of skontration (clearing). In particular, the process of skontration consists predominantly of the systematic

matching of opposite and due claims and their simultaneous annihilation on both sides, thus offset (or clearing or settlement or balancing). In principle, this process is independent of the size of the existing assets of the participants. It can no longer be understood as the movement of some "quantity", of some money circulation or of some account credit.

All "payment processes", from gold coin circulation, to banknotes, on up to bank deposits (non-cash payment using "checkbook money"), all these are merely primitive substitutes for clearing. All theories that do not accept clearing or "offset" as the primary feature in payment transactions do inevitably lead one to accept Gesell's idea of intentionally depreciated or demurrage money. Since increases in the quantity of money are precluded, advocates of these theories must seek to increase its velocity of circulation (*naturally, all inflationists are advocates of depreciating money, not only the followers of Silvio Gesell. Merely speeding up the circulation of monopoly money and this only in its usual and limited channels, dependent on centralized issues, does still not supply everyone sufficiently with exchange media*).

Clearing is the all embracing fundamental principle of the first money function, which we consider here, and which is generally called the "payment function". (1) This term "payment" should actually remain; although it contains a logical unevenness, which we must point out:

In the term "payment" one has to criticize that: in the history of law, "payment", just like the respective synonyms of other highly developed languages, means counting-up physical money pieces, coins or notes. In German: payment (Zahlung) = Zählung = counting, lat. enumeratio. Clearing, however, in German law, is treated in a completely different chapter of the civil law book. It was further developed there particularly with help of the development of contract law, since there was freedom of contract, as well as by its cheque law. The clearing houses that were established in the previous Reichsbank, respectively in today's federal states' central banks, in England in the Bank of England and correspondingly in almost all countries of the world, are based on private agreements of the participating banks. Usually they are private associations, which give themselves statutes and which regulate clearing according to their statutes' provisions. In the English language the process is called clearing, still more however "set off". Neither considerations from the history of law, nor an investigation of the prevailing language usage can come to the conclusion that such processes of clearing are generally regarded as "payments". Thus we consider it more correct to speak of a clearing function of money instead of a payment function, as soon as we transform the notion of money from physical forms into non-physical forms.

(1) Further money functions are the accumulation (hoarding) function and the price formation function.

Thus we see clearing to be the higher concept. Even the much-used term abstractness meets logical doubts, since in logic, by an abstract term one does not understand a term without any concrete characteristics, but a term with which these characteristics are thought to be latently combined. Clearing is a mathematically-organizational process; one could also say a legal and organizational process.

In the last decades, the concept of money went through a crucial transformation; it has gone into a crisis, from which the new concept has not yet come out quite clearly. The world's financial crisis is interconnected with a crisis of the money concept and with a crisis of monetary theory.

Since the times of classical Greece money was thought to be physical coins. Around the turn of the century, Knapp and other researchers drew the distinction between **valutary money** (German: valutarisch) (i.e. => legal tender standard money) and **accessory money**:

Valutary (*forced and exclusive or monopolized, unified and centralized*) **money** is not only means of payment, but also represents the standard unit.

In contrast to that, **accessory** (*optional, competitive, private, refusable, discountable*) **money** is only means of payment, but it is never the value standard unit.

Therefore valutary money has to be always accepted at its nominal value and is not subject to a market rate (*except in relation to foreign valutary monies or "foreign exchange"*), while accessory money is subject to a market rate.

Valutary money, according to Knapp, must be accepted at its nominal value, i.e., it is not subject to free market rating, while accessory money is subject to it.

The valutary money must be accepted in general circulation at its nominal value, it is subject to legalized compulsory acceptance (*also a legalized forced value! Both, in combination called legal tender, forced currency or cours forcé*), while accessory money does not have to be accepted by anybody, except by its issuer, when the debtor has to make payments to him.

Since Knapp includes paper money equipped with compulsory acceptance (legal tender) in the term valutary money, here, for the first time, paper money becomes money in its main sense. (*One conditioned by thousands of years of monetary despotism!*) Therefore accessory paper money gets the name "secondary money".

By the title of his book "State Theory Of Money", which is obviously a wrong title, since gas works or buildings can be nationalized, however a theory cannot, George Friedrich Knapp has caused far reaching errors concerning the omnipotence of the State in money affairs among all those people, who did not read the further remarks of his book. The fact that Knapp, in reality,

was rather a representative of a non-statist monetary theory follows from the probably most important chapter of his work, § 8 b, dealing with giro payments. After he justified the extension of the term money to valutary paper money, he explains in respect of giro payment:

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"The term payment, until now quite bound to delivery of pieces of money, must thus be extended again, if we want to do justice to giro payment." (*Clearing, set-off, balancing, settlement, non-cash payments, transfer payments, skontration, etc., by represent by now already the main forms of payments!*)

He then comes to speak about the details of the clearing bank privately established by Hamburg merchants in 1619 and states that the merchants participating in this bank were members of a **private payment community**, after, in his initial remarks, he had only mentioned the State in the context of a payment community. Now he goes even beyond that. **He declares that the State can create a currency, not because it is the State, thus having the sovereignty, but instead, because it is a payment community:**

"The fact that in the Hamburg clearing bank a standard unit of value, the Mark Banco, has been independently created, without connection to the unit of value of any national money, is a particularly instructive aspect: Any payment community can create a unit of value.

The State can do this, because it is a payment community, not because it is the State.

The State is just the most common, and oldest payment community, but it is not the only one."

(Bold print used for stress by J.Z.!) (Actually, according to Carl Menger, it is not even even the oldest payment community. Money, too, was privately invented and only lateron monopolized by the State.)

And then he gets to the point that will particularly interest us here: the concept of payment:

"Seen from the view of giro transactions (clearing), we comprehend that payment exists without transfer of material pieces (*be they coins or notes*). Thus we see ourselves forced to define the concept of payment in a different way than it was so far. If there is to be a single and uniform understanding of the term of "payment", one which encompasses payment in pieces as well as giro payment (clearing, offset, balancing), then transfer of material things must not be a substantial requirement of payment. The essential characteristic of all payment can thus be found only in giro payments, it must, however, also be provable as hidden even in specie payments.*) We want to try to define the general concept of payment in the following way:"

() (These are merely very expensive clearing certificates! They are like writing a cheque on thick gold plate. Gold is a very valuable element and good for measuring values but not rational and the most economical medium to use for writing gold-weight-accounting, typified and standardized clearing-cheques on, through coinage.)*

He continues:

"Payment is a process, which, in every case, presupposes a community;(*) whether this community is the State, or the clientele of a bank or any payment network, is a subordinated question; the payment community could even extend beyond the State, e.g. in auto-metallism (the exclusively circulating currency in form of gold [*and*] or silver coins [*of a certain fineness*] - the author), a payment community consisting of all those (citizens of the different nations - the author), who commit themselves to use silver, ore or gold as their exchange medium.

However, as soon as autometallism (*The exclusive use of metals for payments, mostly rare metals*) is overcome, (*one might almost say: defeated, for, after all, it is a great*

restraint upon all the possibilities of freely exchanging all other commodities, of which there are multi-millions different ones, in either very limited or almost unlimited quantities, when millions are free to produce them, as well as hundredthousands of different services, in quantities limited only by the size of the population) the payment community must have a regiminal (administrative - the author) guidance: there must be powers, which legally and juridically regulate the kinds and processes of payment. Each of the payment communities then has a central point, from which it is led: In the case of State money it is government authority, in the case of private payments it is, for example, a bank. Conceding all this, a view of a more comprehensive definition of payment will result: It is not physical delivery of pieces that is required; a juridical transfer of counter-claims suffices, one denominated in value units, and these are counter-claims which are directed to the particular central office. Such transfers can come about by physical delivery of chartal pieces (charta = card = certificate or note - the author), thus of money; however they do not have to, since in giro payments there is no physical delivery of pieces; the transfer takes place by bookkeeping instead ... "

"... at the same time, thereby the term means of payment is extended; pensatory (pensare, lat., to weigh) (paying in precious metals by weight - the author) and chartal (paper - the author) means of payment are already known to us. But now and in addition enters, - if this expression is permitted - the giro or clearing (offset, balancing) means of payment. All three kinds allow the transfer of claims directed to a central office, but only the first two carry out this transfer through physical delivery of objects. The third kind does not use physical transfer any more, but only bookkeeping-transfer."

() The size of the payment or readiness to accept or usage community for a means of payment may vary from 2 persons to the size of a people or even the world population and includes all voluntary communities in-between).*

Knapp now gets into difficulties with valutary coins, e.g. gold coins, and valutary paper money (both called by him: definitive money). Holders of definitive money, just like owners of coined money, do not have claims. Thus he expressed his Theory Of The Contingent Claim:

"However, the term claim can be extended, and we have already done that tacitly. There are also claims on the central office, which emerge only eventually; merely once certain conditions are fulfilled; i.e. only when a debt is due to the central office. For the holder, any definitive means of payment constitutes an eventually emerging claim on the central

office. He has, at the moment, when the central office raises a claim against him - neither before nor afterwards - a counter claim which he shows by the handing over of the definitive means of payment and uses for repayment.

The concept of a mere eventual counterclaim is missing in our jurisprudence, while the term absolute counterclaim is completely common.

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Every lawyer knows that claims are effaceable through compensation; here he thinks of absolute counter-claims, that the debtor uses for clearing (set-off, balancing, settlement), instead of resorting to physical means of payment."

By means of the juridical hypothesis of the contingent claim Knapp can understand gold coins and valutory paper money as mere claims, too, and can include them in his comprehensive theory of clearing, although his attention was not called to the set-off regulations in the world's civil law books.

Now he is able to define the term 'means of payment' (in our comprehensive sense of clearing):

"... in a payment community any transferable disposition of value units is means of payment when the holder can, by transfer to the central office, establish an at least conditional counter-claim to this location."

One should consider: Knapp's actual definition - not of money, but of means of payment - is clearing, entirely and solely. The somewhat striking restriction at the end with the words "an at least conditional" is neither due to paper money, nor to giro money, but, exclusively, to the case of metal coins, which is a case seemingly beyond the general rule, namely that of valutory metallic money. (1) By the theory of contingent claims, this is inserted in the clearing-organisation, which remains solely instead of 'money supply'.

Knapp continues:

"Therefore any material content has disappeared from the term means of payment. Likewise, the concept of a mobile thing is no longer included in it, either, both in the sense of essentiality, so that giro or clearing accounts as well fall among the possible means of payment."

In the sense of his previous remarks, Knapp should have to add that "giro money", as far or because it cannot be generally imposed, i.e., it is not valutary but has only accessory (optional) character, and thus must not at all be called money but merely means of payment.

But we would like to go further on this point: Since Knapp, as a jurist and a scientific economist, has made clearing the central phenomenon in the sphere of money, and since modern language usage designates giro money and the other forms of clearing as money, then only the following two ways

(1) ... and the valutary paper money.

remain: either to confine the money concept to the valutary money, whether it consists of metal or paper, and to give to accessory paper money, token coins and giro money the disqualifying designation "means of payment". Or, alternatively, one has to include all clearing not only in the concept of means of payment, but also in the concept of money. In reality this choice does not exist at all, because in the legal and juridical systems of all developed countries (2) clearing (set-off) is not only defined as a possible form for the liquidation of obligations, but as such a form, which everyone has to accept up to the size of his debts. It does not depend on whether compulsory acceptance at face value (legal tender) is declared in coinage or banking law, or in any other law. In any case, compulsory acceptance exists (*in this sphere. But here the debtors and creditors are bound to the legally prescribed value standard. In the sphere of State paper money compulsory acceptance and forced value still play a very large role*). Thus clearing (set-off, balancing) is a means of payment, which indeed is not absolutely valutary (imposable upon

the creditor), but whose delimitation is certainly only individual and in terms of size. Through this limitation purely by size, as well as through the presence of bank accounts for practically every payee, set-off can normally be regarded as a feature, which moves the means of clearing into such proximity to valutary money, that their difference becomes insignificant. Thus the largest part of clearing would be equipped with a quasi valutary character. Facing this fact, it appears today no longer justifiable to confine the concept of money to money pieces and bank notes of valutary character, when the Giro payments in turnovers, perhaps 10 to 20 times larger in volume, by a substitute mechanism are likewise approximately valutary. Thus we come to the conclusion that, going beyond Knapp, the concept of money should include coined money, paper money of all kinds and the clearing money or the clearing organization respectively. Certainly, in this case, the other money functions: pricing function and the hoarding function, remain still open questions for us, and it will turn out, that any money, which has only payment functions, but not the two other functions, would only be imperfect, in particular, it would not be currency (standard money, local currency used as value standard as well as predominant means of payment.).

We want to state in advance, that the difference between means of payment and value standard will remain.

(2) See footnote 1) on page 2.

Seen from this position, the much quoted remark by Knapp, does make sense, namely, that money would be a creation of the legal order. A State-worshipping view wanted to interpret Knapp in such a way as if he would, thereby, have left to the State, that regulates the legal order, unlimited discretion and power of money, e.g. every possible debasement of money and wronging and harming of creditors (*as well as of debtors, in case of deflations caused by monetary despotism!*). Knapp, however, very urgently declares, at the end of that paragraph 8 a, that he had to add something now: money would be a creation of the legal order in communities, whether they are governmental ones or private ones. (1)

In short, this sentence reads: payments are a regiminal (administrative) phenomenon. Before, he had explained that he understood a regiminal phenomenon could also be the administration of a private business enterprise; thus in no way would he understand a regiminal phenomenon to be what that view had wrongly ascribed to him, as if he would have spoken only

of a governmental phenomenon. By this expression he means what we would call today an organizational phenomenon; the organization e.g. of clearing-houses (balancing and set-off centres), by which certain claims are confronted with each other in pairs, so that they can be offset. This method does not move any quantity of physical money ('money supply') but it is an essential feature of the process of payments. This, however, presupposes the unit of value, more precisely the currency standard. He repeats that the value standard unit arises only in communities, and that it is the precondition for payment transactions. A payment order would be possible, in which not a single piece of metal- or paper money would be moved, namely: clearing.

(1) Spaced by the author (*I have microfiche-published the German 1924 edition in PEACE PLANS 797 and the abbreviated English edition in PEACE PLANS 798*)

§ 2. The function of price expression

In the process of payment and clearing transactions the concept of value standard is thus presumed. We have to deal with it now.

Usually one says that, by the introduction of money, the barter exchange was split into two acts: the sale of commodity A for money, and the use of the amount of money received to buy commodity B. Thus, instead of exchanging commodity A for commodity B, two purchase contracts are concluded. Both are settled at a certain price. In what, however, would prices be formed? Obviously in certain value units. One can also say prices are expressed by a certain number of value standard units. Thus prices exist previous to payment, because the fulfillment of the pecuniary claims specified in the purchase contracts is different from the purchase contracts (*illegible: and from the self-debts?*). But all purchase contracts must contain a price. And to determine prices, one needs value units. Such value units are always value standard standard units.

One recognizes the value standard of the currency of a country by the name of the value unit, in which prices in the markets of a country are usually formed.

It remains to be clarified whether, e.g. in a gold standard country, the price of a commodity, say, of ten units, which the parties agreed upon, is to be understood to mean that they have agreed upon a banknote of ten value units or upon a piece of gold of ten value units. The solution could be this: in case of a gold standard, always the effective gold units are meant *(then it remains to be decided whether the effective units are to be expressed in metallic gold pieces (coins) themselves, which are to be handed over or if gold coins of a certain weight and fineness or only to be used used as accounting units)*. That follows not only from the fact that, afterwards, the money certificate might turn out to be counterfeit, but also from the possibility that this accessory money note may have a disagio (discount) that reduces its value to less than 100 % in gold units. In this case, in a gold standard currency, the seller has obviously the right to demand an additional payment worth the discount rate difference. Under a non-gold standard currency, i.e. a paper money with a paper value standard, in which such a note is legal tender (forced currency, with compulsory acceptance and compulsory value) then the seller has to be satisfied with the handed-over paper money, after he had agreed upon the price of 10 units (in the paper money's paper value units) even if the rate of this paper money is perhaps only 50 %, reckoned in gold weight units, of its nominal value, in foreign money markets.

Thus, after the conclusion of the two purchase contracts

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firstly 2 claims exist, which are expressed in exchange media units. Money in the sense of a currency's value standard unit had already been there before, for, without it, one could not have expressed prices in the sales contracts. But money, in the sense of means of payments or set-off, has not yet emerged, in our example. As yet one has not at all paid or cleared the debts involved.

Thus, it is somewhat careless to say that, by the split of the exchange process into two acts, a monetary economy would have come to life. Not money, in the sense of means of payments, was required, so far, but, apart from the value standard unit, at first only claims are sufficient, so that one could speak of a credit economy.

Most claims, which - as described in the first paragraph - arise daily and hourly in various forms in economic life, are such claims from proceeds. We do not talk about unit prices, but the price per unit multiplied by the number of pieces, meters, cubic meters, hectoliters, etc., agreed in the purchase contract, thus the proceeds price multiplied by quantity is called total price or proceeds of sale.

There is, further, the case of delivery upon payment: Products are acquired and money is handed out at the same time. In this case, for a jurist, the time between emergence of the claim and of its payment is too short to take notice of it. Nevertheless, one can explain this case with the clearing of the claim of the seller against the claim represented in the money notes. In numerous other cases we have not delivery upon payment but sale on terms (credit). Here, the claim remains "unpaid" for a longer time. Then the claim becomes dissolved only upon payment or clearing.

We see, upon dealing with this example, that it is not the means of payments, especially not in sales on terms (credit), which play a role in accomplishing and expressing prices. It is a platitude that one can buy without money.

Instead, money in the sense of the value standard unit of a currency must exist prior to money in the sense of means of payment or clearing, so that prices can be expressed with it. When the purchase contract is concluded, the claim for its proceeds results, agreed in value standard units of the national currency, and only afterwards, usually considerably (*mostly not many months or years later!!!*) later, one has to think about solving this claim.

The generation of claims from daily commercial transactions was already emphasized in § 1. It was stated that money in its clearing function has nothing at all to do with the generation of these claims, and, that it has rather the function to terminate the existence of that claim.

New in these remarks is just this: it becomes clear, that, unconditionally, in every case, already before the conclusion of a purchase contract the value standard unit of a currency must exist, which is fundamentally and obviously different from the clearing or set-off process itself (*although it is and must be used in this process!*).

This value standard unit of a currency can be physically expressed, but also non-physically. Under the gold standard (*most forms of it, not the Henry Meulen type, the gold clearing as well as the 100 % redeemable or the fractionally covered gold standard*), the currency standard unit is constituted by a specific weight of gold (*which is usually gold of a*

specific degree of purity or fineness. Coins of pure gold are usually thought of not wearing or lasting well enough. But that may be a myth according to Beckerath. Soft things often wear better than harder things, because they have some give in them. Naturally, that is not true if they are handled with abrasives. But, e.g., our hands are not abrasives and neither are e.g. wooden or plastic counters or smooth metal ones). Often one tries to define this value unit by the value of a certain quantity of gold (*Henry Meulen tried that! He wanted to define the value of a gold weight unit by the purchasing power of a paper Pound value unit, with the latter redeemable in various gold weights!*). This is impermissible. Each measuring unit must be defined by another unit. So e.g. the liter is equal to the contents of a cube, whose side length is 10 cm. The measure of volume is thus defined by the measure of length. Legally, the metallic currency standards, however, are only in rare cases defined by declaration of the fine weight metal per unit. For coin-technical reasons (*perhaps only assumed reasons, i.e., really only motives or assumption!*) nearly everywhere is indicated, how many coins (of a certain number of units) are to be made from an ounce or a kilogram of the precious metal, the fineness of the metal being designated in detail. The German coinage law of 30th of August, 1924 formulated this:

§ 1.

The gold standard applies in the German Reich. The accounting unit is the Reichsmark, which is divided into 100 Reichspfennigs.

§ 2.

As Reich-coins are to be minted:

1. as gold coins: Coins of 20 RM and 10 RM.

...

§ 3.

From 1 kg fine gold

139 1/2 gold coins of RM 20, - - or

279 gold coins of RM 10, - -

shall be coined

The mixing proportion is 900 parts gold and 100 of parts copper. The shape and design of the coins is determined by the finance minister of the Reich. ...

The commentary of Koch & Schacht appropriately says: "A gold standard is that value standard system, in which the value of money is set in relationship to a certain quantity of gold; it is characteristic for it that only gold coins are minted freely. The payment power of silver coins and the total of their circulation is limited. ... The accounting unit, upon which the new German coinage system is built upon, is the Reichsmark. It is not expressed in the value standard metal (gold), but by a silver coin (1). The relationship of this coined accounting unit to the value standard metal of this currency is no longer a physical one. However, the Reichsmark derives its value from a gold coin, which itself determines the fixed coin price (Muenzfuss) (§ 3) of the German money. Namely, from the 10 RM gold coin.... Indeed, 1395 Mark pieces are not coined from a pound fine gold, but, instead, gold coins worth 1395 Reichsmarks."

One recognizes that it is not crucial, whether the particular currency standard unit is concretely made from the currency standard metal. It is sufficient that the whole of the circulating gold coins fulfills this requirement. In this the coins are pieces of metal, which are publicly and by their coinage characterized as money. By the mint standard one understands the indication of the number of coins per kg of precious metal. According to the coinage law of 1924 the gross weight of a 10-RM-piece including the added copper quantity of 10 % was 3.9824771 gr, while the fine gold weight was 3.58422939 gr.

The given example should be sufficient for clarifying the case of the value standard unit of a currency that is expressed in precious metal.

However, just to mention a second important case, the value standard unit of a currency can be physically constituted by a paper money certificate, e.g. a note of the respective central bank. The important thing in this case is the fact that this note is valutary, i.e. legal tender means of payment. The expression "legal tender" does not mean that the remaining means of payments are illegal and thus impermissible, which they are not by any means. This expression merely says that the creditor must accept this note, that this note can be imposed upon him and that thus this certificate, too, is a value standard of the currency (*I remember that Rittershausen later criticized the double definition of the German "value standard", as representing on the one side a certain weight of gold and on the other a paper Mark note given legal tender power. The usual result is*

that not the gold coins are multiplied but these legal tender notes). Our later remarks on compulsory acceptance will further examine this question.

In addition, there is the case – at least it is conceivable – where a value standard unit for clearing is not physically represented, e.g.

(1) by the 1 RM silver piece.

(J.Z.: Rittershausen added a note here which mentioned):

a) "Page 16a add newly: market rate money." - (this topic however is discussed in chapters 2, §8 in the improved structure - J.Z.)

b) Page 17a add newly: "set-off". - *(this topic is however treated in chapters 2, §9 under "clearing" in the improved structure. - J.Z.)*

c) "chapter 'the index currency' (is already there!)." (such a title of a chapter is not listed in the structure, perhaps it belongs either to chapter 1 §2 the price expression function or §3 the hoarding function. At that time I found in the material only an old newspaper article directed

about the Gesellians. Perhaps he wanted to insert that article here? I probably put it to his other articles on index currencies. Which one of them did he want to introduce here? That can only be clarified by visiting the Cologne university library for the original version of the clean copy of his last and 5. manuscript of the “Geldtheorie”. - J.Z., 25,2,05.)

the deposits in a bank, are means of payments with legal tender power and a paper money value standard.

Initially we stated that the value standard unit of a country is ascertained by checking which units are used for expressing purchase prices in trade. Since the currency's value standard unit is impossible, which is a juridical rule for the payment of debts, the value standard unit of a currency has still a second meaning: it may not be rejected by the creditor in the dissolving of debts (payment, clearing). If the creditor does this nevertheless, then the debtor is entitled to deposit the amount of the refused money at court, thus legally fulfilling the contract, so that he can no longer be sued.

The predominance of the importance of impossibility, asserted by some authors, over the significance of the value standard unit in the expression of prices may not be assumed to be correct. For both functions of the value standard are equally important. From both functions it follows that the claims arising in commercial transactions are expressed in value standard units and have to be settled by clearing procedures also expressed in value standard units, possibly in such as have to be accepted. Therefore the function of expressing prices and impossibility are closely connected.

We had said that the payment function of money is independent, so that there is a variety of monies, that do have the payment or clearing functions, but not the characteristics of a value standard unit. Usually, only a part of the kinds of monies is valutory, i.e. is the value standard of a currency. From this circumstance follows a substantial difficulty: A large part of the debtors does not use (*and does not have available!*) valutory means of payments when paying debts,

while the creditors have always the legal right to demand valutory means of payments. Thus all holders of valutory means of payments appear as privileged, all at the same time. Therefore, in cases of great shortages of valutory means of payments or of the value standard units of the currency, all purchase contracts for goods can be understood as dealings in futures or forward contracts, or future delivery contracts for scarce valutory money or value standard units, in analogy to the commodities futures markets known to be risky. In times of credit crises these masses of forward contracts of valutory currency can, usually, not be fulfilled. Massive delays of payments and inability to pay are the consequence.

It is an essential task of the monetary theory to overcome this difficulty. In discussing impossibility we will have to deal with this question.

A value standard of a currency is the means to express prices. To do so it is the value unit. And with it, it is, so to speak, the "measure of value".

One has attempted, when defining the value standard unit to resort to the experiences we have had with physical measuring units. However, it must be decisively denied that one can draw binding conclusions for monetary theory from certain similarities between the value standard measure and the physical science measures. (1) For instance, one has demanded that the value standard measure be temporally and spatially unchangeable, something that would be self-evident for physics. However, the value of the gold unit, measured in terms of purchasing power, is not completely unchangeable, since price fluctuations of goods cannot be avoided. Experience has shown that this flaw of the gold standard is negligible, since the task of the gold value standard unit quite contrary to physical units of measurement, is not invariability (*as far as purchasing power is concerned!*). Rather it is decisive that the main part of the population sees it, subjectively, as suitable for temporary and lasting preservation of wealth. (*And also, to a sufficient degree, of purchasing power, apart from the fluctuations arising in the supply of all kinds of goods and services.*)

The hoarding (*and cash-keeping!*) propensities of the population are based on very complicated psychological phenomena and are in no way amenable to physical investigations.

Still another difference to the physical measure units must be emphasized:

The materialization of physical measure units is used again and again anew; a metering rule e.g. is being used for many years in a cloth store, in the hand of the same owner. The value measure, however, is at the same time means of payment; in immediate delivery for immediate payment transactions it continues to move from the buyer to the seller and in many cases daily from him to other businessmen. In this process, each time anew, an evaluation is made not only of the commodity, but also of the money piece, by the considerations of the customer and of the seller, whether the respective commodity and the piece of valutory money in front of them are really of equal value to each other. Thus a businessman can never measure the prices stipulated in his store with the same piece of money, instead, ever changing pieces of money are used, even though they are of same kind and quality. Add to this, that the persons interested in physical measuring units always employ the same tests, while the psychological processes

(1) Here, I am especially indebted to my friend Professor Dr. Ing. O. Loebel, for his astute remarks. (*See the Munzer/Loebl discussion in the Beckerath papers.*)

in evaluating commodities in terms of monetary units are completely different on the demand curve from those on the supply curve. Thus, a useful further development of the concept of a measuring unit for economic values on basis of analyses of natural sciences should neither be permissible nor should it be expected.

The function of price expression cannot be completely separated from the payment function. In an emergency, the means of price expression must be usable as money of par value, even if the large mass of the clearing processes may happen without its assistance. But clearing for itself can be separated, without completely losing its money character because of this separation. The hoarding now to be discussed, must, likewise and in principle, remain connected with clearing and price expression functions.

§ 3. The hoarding function

At first sight, there seem to be only three characteristics for money:

- the value standard unit,
- claims and
- an organization, which sets the latter opposite each other.

Upon further investigation another monetary function is seen: the hoarding function in its double shape, realization of liquidity and of security of economically active people.

I. Liquidity

a) Primitive liquidity

All people who have to make payments frequently need a stock of claims, which can be used for paying purposes. These claims must be specially qualified. In particular they must be claims against banks or other claims, which can be transformed into claims against banks. Likewise useable are bullion, coins, shares or other valuables, which are either money themselves or which can be transformed into money at any time (*with shares that is not easy when, recently, they have fallen very much in their market value*). (*Presumed beginning of this quote. Rittershausen or his secretary did not provide quotation marks here*).

"The population's propensity to hoard values, which can be used immediately for payments, is called liquidity (*Veit expressed this wrongly. The inclination or propensity or tendency of people to have money or other means of payment on hand is not liquidity in itself. Very poor people may have the inclination, but not the poor man's credit-card, namely: cash. Only when this inclination is effectively expressed does it become liquidity to the extent that this saver*

does want to be liquid and can manage to do so. - This topic is so important that inaccuracy in expression should not be tolerated - once it is seen.) Everywhere, people are dispensing with complete use of the current goods production for immediate consumption and retain a part of the output for exchange purposes" (Veit).

Some wealth is built up from goods that are not consumed (*here one should add: "by the producer!*) and is held in the form of liquid means. For the economic system prevailing today, Otto Veit differentiates the following scale of exchange qualities, and with it grades of liquidity of goods:

Money

- gold coins
- change coins (divisional coins?) and notes in small denominations,
- notes in large denominations,
- assets at the central bank,
- daily withdrawable deposits in commercial banks,

Money market papers

- bills of exchange and treasury notes discountable at the central bank,
- bills of exchange discountable at other banks,

Term deposits and savings accounts

Text in parentheses added by the author.

- securities - acceptable as collateral by the central bank, (securities with fixed interest rate.)
- securities (with fixed interest rate and shares) - officially traded at the stock exchange,
- securities - traded unofficially at the stock exchange,
- goods traded at the stock exchange in hands of the sellers,
- securities - traded on the free market,
- ready for sale goods in hands of the sellers according to marketability
- (works of art and antiques of market value),
- mortgages and other debts on land according to their order of priority,
- real estate - vacant building land,
- real estate, built upon or cultivated,
- (machines and equipment),
- claims from bank credits according to their maturity,
- not yet ready for sale goods in the process of production,
- (private debtors),
- (claims of groups of heirs of partnerships not traded at the stock exchange and other wealth difficult to liquidify).

One could make a number of annotations on this scale; however, here and now, it should be accepted without contradictions as essentially correct. The most liquid values are on top of the list, the least liquid values at its end. The need for liquidity is fundamental and ineradicable; it is general and not limited to monetary and credit economies only. People living under barter conditions as well, yes, even animals, do differentiate between objects, which are immediately useful to them, without which they would not survive, and objects, which they do also need but only later. For instance, someone living purely by barter would have falsely disposed of his energies if, one day, at noon, he had provided only for weapons, boats or other long-term tool, but not for food, which he can consume immediately. Predators as well do differentiate between wild game pieces just eaten and animals in free hunting-grounds. All dispose by aiming at a supply of both in appropriate proportions, particularly of course humans in the modern economy.

b) Liquidity of the Bears of the stock exchange.

To the liquidity requirement in this natural form must be added the still stronger liquidity need of the bears at the stock exchange. Keynes and Kunwald had, too narrowly, called only the latter type the "need for hoarding".

In the modern economy of credit and expectations price formation does no longer take place exclusively in a static way, according to § 2, at the crossing of the supply and demand curves estimated for that moment. Those businessmen considering their demand and finding that they would buy e.g. more dress cloth in case of cheaper prices calculate only for the moment and do not consider future expectations and future fears. In any case, statics operates in this way. In an expectations economy, which, by the way, is in no way identical with the dynamic economy, future expectations are considered: If they are under the impression that the expected price reductions would continue, then they do not buy, in spite of cheaper prices, while waiting for still lower prices. In a fully developed expectations and credit economy, this inclusion of future prices in supply and demand calculations is generalized and concentrated in the stock exchanges: The Bears expect price reductions, therefore they accumulate money and sell commodity futures (*at relatively low prices*) without again stocking up on them, even without possessing the sold commodities at all, as yet (*they merely expect to be able to buy them, later, quite cheaply*) (trading in futures). The Bulls expect price increases, therefore use up their liquidity, to buy commodities, partly on credit beyond their own funds (trading in futures as well). Both parties wrestle with each other. If they are equally strong, then the Bulls borrow their liquidity from the Bears. The total liquidity is then unchanged or normal. However, if the Bears prevail, then large amounts of liquidity are accumulated, the corresponding values rise in price, while the less liquid values experience price falls. The new savings, which take place simultaneously, flow to the Bears, who, because of their price expectations neither buy nor invest. In case of a one-sided bullish mood (*under boom-economy expectations or preductions*), it is the other way round.

In the perfect credit economy, when the banks are ready to grant owners of vendible wealth credit of some per cent of this wealth, price formation (on markets for commodities, securities and real estate) does no longer consist of an exchange of the commodity or service just sold against another commodity, but of an exchange of liquidity against goods, or of goods against liquidity. This exchange

is facilitated by credit, i.e. by a loan-based acquisition of the still missing liquidity. Interest is then the reward for the renunciation of liquidity.

Thus the liquidity of the predominant Bears increases the first mentioned "primitive" liquidity, probably including the credits drawn, or liquidity is diminished by bullishness becoming predominant. "Bear liquidity", as we want to call it, is not fundamentally different from "primitive" liquidity, for both are based on expectations, on renunciation, on expectations for the future. It is the same liquidity, in a refined form.

II. Security (Wealth Accumulation, Higher Appraisal *of e.g. land and building values*).

a) Essence

One century of gold-standard currency, of the sanctity of the rights of savers and of the refusal to interfere with them even on the side of the political opposition, did satisfy the need for security, which a currency should also fulfill, as its name, in German already states. They had served so perfectly, that the newer monetary theory has forgotten about such security needs (*add to this the rise of statism, the belief that the State could or would do no wrong*). Goods in unlimited supply are counted among the free goods and become worthless, be they as useful or even as indispensable as they may, e.g. air for breathing. The hoarding function of money does not only provide for liquidity needs, as Keynes, Veit and others seem to state, somewhat one-sidedly. Rather, its composition is more complicated. Generally speaking, psychology in our science has so far not had its say continuously but only selectively, on some points. At least the need for hoarding, which we understand here in a broader sense than the "modern monetary theory" does, embraces more, at least still the need for security and durability of value storage. In the long run, a currency cannot exist, if it satisfies in no way the value storage needs of the population. Then it falls victim to refusals to accept it (*to repudiation even in spite of its legal tender privilege*). The theory of a very dangerous repudiation (*dangerous to whom or to what? To the central bank and its monetary despotism, but no longer for its former victims!*), which, as all theoreticians admit, can terminate the life (*the artificial life or privileges!*) of a currency, has always been recognized, but its premises have not been correctly assembled into the theory.

Let us return to the liquidity scale of Veit, which was compiled out of the needs of the banking business. However, the private citizen or entrepreneur when facing banks has still to consider the difference between monetary values and real values. In the case of a metallic value standard he cannot suffer losses from currency coins. In the case of monetary values he can suffer losses only if the debtor of the respective claim document, which is expressed in monetary units, will become individually weak (*a bad debtor of one kind or the other*). In the case of real values, on the other hand, he can suffer losses from the associated usual risks, thus to price fluctuations in the case of goods and properties. In the case of the paper value standard of a paper money, however, those, who possess the paper value standard units of a currency or claim documents denominated in it, can, by depreciation, lose an unlimited amount, up to 100 % of their assets. In contrast, owners of tangible assets can only be exposed to the same considerable dangers, which they would have faced under a metallic standard as well; however, these dangers would, applying intelligence, never go up as far as 100 %. Consequently, Veit's view is correct only for the case of the gold standard. In this case people would sort their values according to the order of his scale to always stand prepared for unexpected events and payment claims. If, instead, a paper value standard prevails (*which can only happen by legally imposing a forced and exclusive paper value standard and paper money*), which in itself is already risky and whose risk is increased by an economic policy that "silently" and continuously sacrifices the interests of money creditors (for decades), then this liquidity scale cannot be considered as completely satisfying the concept of (*and needs for*) hoarding.

The liquidity need of the individual does not stand alone. Besides, one has to consider the security needs. While the liquidity need wants to provide for suddenly arising means of payment requirements of the next days and weeks, the need for safe keeping would like to put values aside and wants to hold them in readiness, eventually for medium and long-terms. Such values allow a secure existence later, even in a distant future, particularly in old age. For the case of an unstable value standard of a currency the following scale of values preferred for secure hoarding might be applicable:

1. Primary hoarding goods:

- Precious metal as form of bullion and coins,

2. Secondary hoarding goods:

- Jewelry, watches, diamonds, antiques and other precious goods,
- Durable food,
- Textiles not exposed to changes of fashion, pieces of clothes, carpets, furniture, cameras, office machines, etc.
- Stocks and partnerships,
- Occupied houses managed or inhabited by yourself,
- Building blocks and market gardens
- Trade goods,
- Furniture, (*almost!*) everything that is movable.

3. Things to be rejected, because they are monetary values:

- Money (acceptable as hoarding good only under the condition, that there are debts of equal amount)
- Paper money and banks deposits, short-term money market papers, savings bank accounts and bank deposits,
- Long term bonds & mortgages. (*Without value-preserving clauses.*)

The scale of these "securities" differs from those of Veit like the Bulls differ from the Bears: The first half of the liquidity scale contains only monetary values, that of the scale of the securities contains only tangible assets. Those who go into money distrust the price development of tangible assets. Those who go into tangible assets distrust the development of monetary values. Here we achieve a fundamental result, one that remained hidden for decades due to an all too narrow (trimmed) definition of hoarding (probably because it was unpleasant): Under the gold standard (together with other metallic standards of a certain type later called by me "self worth currency") security and liquidity coincide, under a paper value standard of a currency ("fixed rate currency") (*fictitiously fixed or manipulated, for "fiat currencies"!*) both fall apart in the course of time or immediately.

The kind of liquidity goods and the kind of hoarding goods preferred by the main part of the population is of greatest importance for the economy and for the policies of government. One has to state not only that different scales of liquidity and security goods are to be used under

different currency types, but the householders and managers of economical enterprises will consider the following: They will want to make allowances to both the liquidity aspect and

the security needs at the same time. So they will make a selection from both scales. In this it is remarkable that, in almost all "civilized countries" during the last decades and to an increasing extent, the State has exerted its influence on the kind of liquidity and security offered. In particular, the State has eliminated precious metals as means of liquidity and secure accumulation by abolishing the gold standard in most countries. Instead, it offered monetary values issued predominantly by the government (bonds etc.). These, however, are not or only secondarily considered by those operating in a fixed rate currency economy (cours forcé currency, fiat money, paper money, fixed rate paper value standard currency) for reasons of *(all too often justified fears for the future of such a currency!)* currency fears, so that an ever larger demand can be noticed for merchandise (commodities, goods) among the later ranks in the security scale.

Therefore the issue of security needs has to be addressed in greater detail. The need to store and secure abstract economic values is generally underestimated. However, in the social world it is one of the strongest needs of all that are effective. It is so alive and intensive that it often proves to be stronger than altruistic ideals and other economic considerations, even stronger than hunger and love. As a very primitive feeling operating in the lowest layers of consciousness, it includes a need to view, touch and possess the property, and, on the other hand, a longing for stability, which is ineradicable and turns to other means (e.g. stockpiling, pensionable executive positions, hereditary serfdom etc.) *(In other words, this primary governmental interventionism leads directly and indirectly to more and more government interventionism and growth of the faith called "statism")*.

This need is primarily directed toward certain economical hoarding or accumulation goods, the value of which is promoted by beauty and rarity and, psychologically, has become a content of the masses' consciousness. Not the need for practical-technical use is decisive, but the need for a value carrier, not the conceptions of sober banking people and money specialists, but the erroneous unconscious conceptions of the mass of the population, formed over thousands of years. At present, practically only gold, silver and, under the gold standard, alternatively also certain kinds of paper money and bank account money, come into question as such primary economical accumulation goods. Since with the latter the sensuous shine and feel is missing, so nevertheless apparently the kind of printing, beauty of the pictures and newness conditions seem to play a role.

b) Price formation of security goods: the demand

With all other goods demand rises, or at least it remains unchanged, when their prices decline, even when they are strongly reduced. But demand for a security good declines, when its price declines excessively. Because here, the accumulation need is directed toward possession for reasons of value preservation, thus toward stability. If the value-keeping material proves to be less reliable, through the fact that its exchange value steeply declines, then and thereby its suitability for satisfying accumulation needs decreases just because of that. E.g. if silver were to be found as frequently (*and extensively!*) as copper, so that annually 200,000 wagon loads instead of 814 were produced, then, although by this multiplication of supply, it would conquer very widely extended usage, at the same time and to a large extent, it would also lose its previous use as an accumulation good. Watch casings e.g. would no longer be made of silver, but out of stainless steel, which is much more suitable and harder, or of nickel. Price formation of accumulation goods thus always takes exactly the opposite direction of that of all remaining goods; a fact, which was hardly ever considered by the entire literature and hardly ever utilized in economic policies.

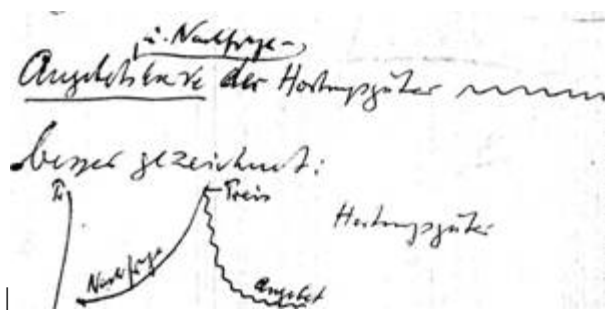
c) Reduction of the "money supply" in times of boosted inflation.

From this it follows that during strong money depreciations, e.g. due to large additional note issues (*only possible for exclusive and forced currencies, issued beyond the amounts at which they would still be accepted at par, if they were not legal tender! - This cannot happen for competitively issued and optional notes and clearing certificates, all using optional value standards! - Seeing the popular views on money this cannot be stressed too much. Rittershausen explains it in the following section in other words*), the "quantity" (1) of that money, which is payment commodity and accumulation commodity at the same time, shows a decrease, instead of an increase. (*While the nominal amounts of that currency would be increased, its total purchasing power might decline and towards the end the prices might race far ahead of the "productive" power of the note-printing presses, even when their output concentrates on notes in high denominations. Why? Because sellers of e.g. consumer goods, just to be safe, would anticipate further price increases, not only during the period required for re-stocking. - This is a rightful and rational reaction towards monetary despotism. Unfortunately, it all too often occurs only all too belatedly.*) Indeed, at first there is a rise of the quantity of means of payments in circulation (by the amount of the additional note issue plus the dissolved money hoards), but this "money" is merely a "limping" money, it can only continue to fulfill the payment function, but no longer the one crucial

function, the security function. Thus, because of its depreciation, paper money and bank deposit money becomes *(largely! Not completely and immediately! People still hoard, to some extent, even depreciating paper money - for want of enough better options. E.g. current US paper dollars are still widely hoarded, not only in the USA. People do not always act quite rationally and sufficiently informed in this respect. Misplaced trust in governments and their actions does persist, largely regardless of the costs to the victims)* useless as an accumulation good, as far as it served so far as such, and is no longer in demand; together with the hoarding function, these kinds of money finally lose

(1) This quantity of money does not correspond to the term "money supply" of the modern theory, since not all payments are performed by the accumulation goods; nevertheless, the expression is often used in this context.

(Rittershausen inserted here a sheet 29 A, with a rough and handwritten sketch for the supply- and demand curve of accumulation goods. It is partly reproduced here. Vertically: the price, horizontally: the supply. - J.Z.)



Supply

also the payment function and thus the proper character of money. The sudden restriction of the money functions upon the payment function alone does activate the quantity of the security good so far not used for payments; thus it suddenly increases, and this in a dangerous way, the quantity of money available for payments only. Thereby such an excessive and disproportionate further depreciation of money occurs (price increase, black market in case of price controls etc..) that prices increase faster than the note supply (*was or*) could be increased by the printing press. With the remaining monetary values (*purchasing power of the depreciated notes*) the goods (*labor and service*) turnovers can no longer be sufficiently achieved. Even technically, a comprehensively applied liquidity plus hoarding for security purposes, whether for hours or years, is indispensable for the accomplishment of the daily payment transactions. Liquidity [in means of payment], when hoarding for security purposes runs contrary to it, i.e., does not run parallel to it, is not sufficient, on its own, to keep turn-over means [means of payment] in circulation. A terrible restriction of the means of circulation occurs. There is no money (*not enough money!*), because that money, which visibly remains, is no longer a full money. (*Deflation in the middle of an inflation. Now also called "stagflation": stagnation plus inflation*). Thus the circulation of Reichsbanknotes in Germany in 1923 declined from approx. 3,000 Million to 100 Million, reckoned in Goldmark and a very large percentage of the enterprises had to close because of money shortage, although note printing plants and numerous private printing plants, which were asked to help out, were working day and night. At the same time, the value preservation need was stormily directed toward other goods, which can be called secondary security and accumulation goods. Here, in particular, shares came into question, real estate, jewelry and luxury goods, furniture, and, finally, "everything which was not riveted or nailed down." With elementary force, the security and accumulation need is particularly directed toward certain currencies of (*somewhat*) stable value, if available, e.g. illegally circulating foreign exchange, which became at once money, even before legislation was able to sanction their emergence.

While thus the demand for security goods (paper value standards) declines when they are strongly depreciated, a dissolution of security hoarding takes place and new security goods are searched for, the demand for security goods will increase and they will be hoarded excessively when their value increases strongly, because the value of the investment therein rises. (*Remember the time when most paper monies were so rapidly depreciated and so many people fled into gold that its price, in US dollars rose to ca. \$ 800.- per ounce?*) Thus price reductions of money, in case

of strong changes, (*value or purchasing power reductions of paper money*) have a reverse effect on supply and demand than have price changes in general commodities.

d) Price formation and security goods: Supply

(The supply is, naturally, restricted, as long as free choice of value standards is not introduced!) The second difference between security goods and the usual consumer goods is the fact that the hoarded stocks, which serve for value storage needs, do not disappear from the market. They are not consumed, i.e. not destroyed, because nearly all buyers acquire such goods just because they can exchange them, when necessary, against other goods, thus because they neither do consume nor want to consume them *(I think that e.g. a cigarette currency forms somewhat of an exception to the rule. It serves as a security good but also, relatively soon and in most cases as a consumer item)*. In the *(free!)* market, a balance is being found between new supply of and new demand for consumer goods and capital goods (means of production). Installed means of production and used up consumer goods drop out of supply. In case of depreciation and repudiation (rejection) of a hoarding or security good, however, the whole mass, hoarded possibly over centuries, appears in the market. Therefore, the consequence of repudiation of a security good (accumulation commodity, metal or paper money, bank deposit money) is an imbalance for the market of this commodity and the possibly enormous savings invested there, thus a disaster, which swells avalanche-like, while price reductions of any other commodity lead directly *(and fast!)* to market adjustments. In the case of silver, for instance, the hoarded world stocks amount to approx. 350,000 tons, while annual production amounts to about 8000 tons. For gold, the stocks and production (valued in US dollars) come to 30 billion and 1.4 billion; for the German economy alone, converted to D-mark paper money, perhaps to 150 billion and 15 billion. There are no similar conditions for most of the remaining goods. *(Possible exceptions e.g. platinum and diamonds. But platinum industrial usage for catalytic conversion has gone up enormously, thus shrinking accumulated funds and raising prices.)* Among long-lived consumer goods the supply of housing is similar, as demonstrated here. (1) *(Unless e.g. rent controls, interest rate controls, prohibition of gold clauses and landlord - and tenant acts as well as zoning laws, building laws etc. intervene. A sufficiently free market does no longer exist in this sphere, anywhere, to my knowledge.)*

e) The displaced security need

The false theoretical development of the last 2 decades (*how many by now?*) tried to understand, in one-sided way, the quite recognized hoarding as a striving for liquidity, attempted to suppress the security needs and to divert them to paper- and bank deposit money; however, the power of the irrational (*not quite irrational but partly justified!*) primal instinct for security in metal was underestimated. The accumulation-hoarding need is most strongly

(1) see quotation (*Which one is meant is not clarified here. Perhaps it was expressed in one of his prior drafts?*)

met by the effective circulation of rare metal coins of full value (*and by paper monies so well issued and administered that they remain "as good as gold" and are readily accepted as such*). From experience, paper money can serve for accumulation only to a smaller extent (*as long as it is merely monopoly money that by law has the privilege of compulsory acceptance and forced value*). Through displacement (repression of the natural options) one achieved, psychologically, only misallocations which caused disturbances. E.g. the effective gold circulation was generally called a prodigality, because one did not recognize, what element of general security and stability was provided by such an effective metal circulation. Perhaps it represented the capital investment with the highest efficiency of all. By increasingly taking gold out of circulation and villainizing silver coins by forgery-like minting below value (*presenting as "silver coins" coins that contained e.g. more copper than silver*), one took away from the people the objects for their original and traditional hoarding and accumulation needs, anchored in the deepest layers of consciousness (1) and directed them to the unmethodical search for new accumulation goods, unwisely without offering to them suitable ones.

Investment in stock exchange values, offered as a substitute, was too often disappointing, and did not satisfy security needs. On the contrary, it increased insecurity, all the more, because an economic and stock exchange-constitution based on the paper value standard of a forced and exclusive paper currency suffers from particularly large price fluctuations. Excessive international capital migrations, refuge capital, political uncertainty psychoses and flight into commodities were the results, which then entailed still larger uncertainty.

On the other hand, the presence of full worth money in real circulation of a country has to be judged favorably, as long as the mass-psychology attitudes (*and free choice of value standard decisions!*) do not change. The views of the masses have not (*altogether*) changed. This is demonstrated by a look at the material composition of military medals and high political and military badges of rank of all countries, from Russia to the Hitler Reich to the United States (*also of e.g. Olympic medals*). In England and by English theoreticians coin circulation was very highly estimated up until the 1890s. In Germany, after the end of the inflation in the year 1924, one could only regain confidence of the people for its currency by re-establishing silver coin circulation, and this with great success. After 1933 the new government first re-coined the 65 % silver 5-Mark-pieces into coins with 90 % fineness (decree of November 7th. 1933), thus affirming the usefulness of full worth metallic circulation and creating

(1) see Rothacker.

confidence. (*A soundly based competitive, optional, refusable and market rated currency does not require "confidence" to maintain its value but merely freedom to issue it, to accept it, to refuse to accept it and to rate it in a free market for e.g. gold and silver and against other currencies. Only some significant acceptors must exist, who will accept it at par and must accept it. In other words, a limited group of people towards whom it has full "legal tender power" in the juridical or debt-dissolving sense. More important than "confidence", which can, for all too long, be quite misplaced, is everyday readiness & obligation to accept it by the providers of daily needed consumer goods and services, as if it consisted of e.g. gold- or silver coins, corresponding to its nominal value. - Since the term "confidence" is so frequently abused and misplaced in this connection, one should always stress that it is not a primary and fundamental requirement. Strongly distrusted and unknown currency would be rapidly brought to where it is or must be accepted at par for wanted goods or services. The lack of confidence in it would then not matter at all. It would still be accepted, by those willing or even obliged to accept it, at par with its nominal value. And with this acceptance the distrusted notes and the lack of confidence would disappear together.*)

The existence especially of a full-metal-value circulation is the only known and completely effective means to restore a displaced and disturbed hoarding and accumulation function, thus also a means to prevent the destruction of the value standard of a currency by domestic distrust (*distrust does not destroy the value standard of a currency. It is merely the justified consequence of the*

depreciation of a currency that has already taken place). (The distrust arising is mostly only all too deserved. Moreover, it usually arises belatedly and when the distrust is already very much deserved and merely reduces the officially over-valued currency to its real remaining purchasing power. Not lack of confidence is then to blame but prior mismanagement of the currency issue, leading to significant depreciation, which is merely becoming revealed when lack of confidence becomes wide-spread, for very good reasons! - I wish that Rittershausen himself would have clarified all such details. Perhaps he made still too many concessions to popular prejudices, in order to achieve a wider circulation for his views? I do not believe that he fully subscribed to the theory of the need for confidence in a currency). It is an automatically functioning brake against the sudden effects of political crises and other crises of confidence. Beyond the economic sphere, it is a strong element of political confidence. In contrast to an almost childlike viewpoint of so-called "money theoreticians" and a completely pre-scientific one in terms of mass-psychology, the silver specialist Kunwald stresses this importance of hoarding and accumulation and thus of the effective metal circulation with the following words:

"The coin speaks - how well did the Romans know that! In daily circulation, it speaks louder to the man of everyday life than laws, which he does not read. It daily tells people not only about power, but also about reliability and loyalty of the highest national authorities ... By experience, no social structure of rule bears up against the unreliability of the monetary system."

Indeed, we have realized that in Europe, Africa and Asia. E.g. the fall of the British Empire by voluntary dissolution of the central governance followed absolutely (*not immediately, but, usually, a few years later!*) the renunciation of the gold standard in England, which was regarded as hauling down the flag, as generally known in the liberated countries.

f) The end of the consumption vs. hoarding and accumulation decision.

To this must be added the likewise not sufficiently considered importance of hoarding for the price formation in commodity markets. Money and commodities only match when hoarding and accumulation is accomplished (*since, apart from cash holding for current expenditures, in the wealth sphere both, the hoarding and the accumulation function are involved one should express this as often as possible or advisable*). In the heart of buyers, the "propensity to consume", as Keynes called it, struggles with the propensity to save, to remain liquid, to hoard. When the hoarding function of money is disturbed, only the one-sided propensity to consume remains for its holder. Nobody wants to save any more (*apart from short-term savings towards a particular*

larger purchase. And even that can now often be achieved immediately, by buying on terms, in which the interest rate becomes at least partly offset by the depreciation of a paper currency during the repayment period). No longer is there the problem of deciding whether to keep or to spend money, directed (*or influenced*) by the interest rate. There remains only the job of choosing between different goods, often some that are not immediately or soon needed at all. The consequence is a run on commodities, in various degrees, up to the sellout of consumer goods, also of investment options, -- while saving activity, the stock exchange, the industrial and public loan market suffer.

As proven by experience in Germany from 1947 to 1951, the following extreme case can happen: Interest formation comes to an end, since everyone wants to become debtor, while nobody wishes to become a creditor. Interest as the price for renouncing some liquidity (*for a considerable period*) goes up to near infinite (*this is somewhat exaggerated, with "poetic licence"*). Anyhow, it exceeds all rational rates that could be justified from the profit point of view of industry. With this the private financing of industry ends as well. Only government remains to finance industry, through revenues from taxes; and industrial companies, with already existing plants, finance "themselves" through high profits (*provided they are not under price controls, export restrictions, foreign exchange controls etc*). This special form of financing oneself out of one's own monopoly profits, in enterprises too little limited by competition, happens coercively, at the expense of the consumers. Just like it happens with taxes. This special form of financing is increasing ever more, because in developed credit economies, credit as an engine for start-ups and of new competition is of paramount importance. Then it ceases to exist, and with it, competition disappears, too. Due to the one-sided propensity to consume, the one-sided bull-market-mood without a bearish position, thus due to disturbed hoarding and accumulation, the system of competition is crucially weakened, and instead, monopolism and a system of State supremacy is favored, the price level is excessively high, and exploitation in the sense of Marx is caused (*but here of the consumers and taxpayers rather than of the employees of the privileged enterprises. - They, too, received unearned monopoly profits*). By that, the foundation of democratic-liberal systems of government becomes eroded. Without a complete hoarding and security function of money, in practice without a gold standard, preservation and continuity of western civilization could become doubtful. For without it, there is no (*not sufficient?*) private capital, no (*sufficient?*) capital market, an insufficient degree of competition, no (*insufficient!*) free and durable enterprise.

Those additional commodities bought as a substitute

for normal hoarding and security options, are mostly uneconomically misdirected. Production capacities become overstretched, raw materials and workers are wasted, since normally they are not currently needed, since hoarding and secure accumulation would be more suitable. Social security needs of the broad masses are displaced into illusory solutions, like "right of co determination" (*and "Welfare State" services and disservices*), because their natural satisfaction remains blocked (*for example: Under the gold standard my paternal grandfather was enabled, even merely from his salary as a lower grade postal official, to accumulate a considerable fortune in private savings. It was, largely, destroyed through the 1914-1923 inflation. From what he managed to save, somewhat securely, I do not know the details, he supported my grown-up father for many years. My mother had provided, even as a lowly secretary, for an insurance fund for my university education. It was destroyed through the Nazi's inflation. - Dozens of millions suffered a similar "fate" through the monetary & other despotism of "Big Brother"*).

Thus, to disturb hoarding means to intensify imbalances in commodity markets, wild demand for goods, therefore a tendency for price rises and for deterioration of quality. Economic policy, industry, savers and workers have, therefore, an urgent interest in recovering the hoarding and accumulation function of money (*alas, they remain uninterested in bringing this about. In this they act almost like primitive man, who believes himself to be the helpless victim of powerful demons*). For example it was impossible to establish an equilibrium of commodities and money up to the end of 1923 and to June 1948. Not only did national price control fail at these occasions, but the State deficit became ever larger, because, finally, nobody wanted to buy bonds and save any more, so that the government's budget, e.g. in 1951, was still more overloaded with investment expenditures for industry. Starting from November 1923, after the introduction of money with stable value and partly also of metallic money, a reverse movement of unforeseen power started: The flight from commodities into money began. Every single Mark of stable value was regarded as precious good, and in contrast to this, the previously imagined value of those goods melted down, suddenly, goods that before one had assumed to need, rather urgently. Many less commodities were demanded. Suddenly, even the national budget could be balanced because of restored hoarding (loans for the government) and this cause of imbalances disappeared, too. After the German currency reform of 1948, in wrong psychological judgment, one initiated by an American student of economics, neither gold nor silver were offered to the German people, addicted to hoarding. The consequence was a rare and floating condition: money regained the payment-, price-expression- and liquidity function, but was strictly rejected (at least until 1951) as a means of hoarding and accumulation, so that further favorable consequences did not eventuate.

In conclusion, it must be pointed out, that disturbances of hoarding and accumulation affect also production in an extremely unfavorable way. For not only do the consumers flee from money to goods, when the security factor is not present,

but the sellers, too, do the same. Manufacturers hoard raw materials and workers (see the manifold regulations issued from 1941 to 1944 in Germany to fight of this evil); traders keep good commodities for themselves and pass on only inferior goods (see the "private libraries" of the bookseller & the pseudo-artistic commercial articles); farmers eat their eggs themselves; something they would have regarded as a crime in times of healthy wealth accumulation (functions); and workers loiter away their time and do private work (*while Rittershausen, who had been working at the price control office, a tragic-comedy for him, as a strong opponent of price controls, was familiar with the practice of "hoarding" workers, who can hardly be stacked up like cord wood, one should explain here how this kind of thing was happening. Workers were not dismissed, when becoming temporarily superfluous, but kept on, being assigned some unnecessary chores, so that one would have them handy when, suddenly, they would be needed again, quite urgently. For once they were dismissed, then, under wartime conditions, it would have been very hard to get replacements for them. This was, I believe, the meaning of "hoarding workers". It was, so to speak, an "industrial reserve army" of unemployed, but not in the Marxist sense. These unemployed remained in the factories and were, pro forma employed and paid workers, but largely idle, until they were needed for urgent jobs. Their controlled wages were considered to be a relatively trivial expense. Such and many other absurdities happened under the supposedly total mobilization of all economic forces for the war effort. - The eggs which the farmers managed to keep from the compulsory delivery quotas imposed upon them, and which they could not eat themselves, ended up with relatives, friends and on the black market).*

If one wants to deal with this reluctance to supply and to perform merely with wage-concessions, like "incentive wages" etc., then one merely treats symptoms. The result will be: Further price increases, still greater monetary depreciation, a still stronger erosion of the hoarding and accumulation function of money.

In economic policy practice, it is usually the decline in production that enforces a change of the course of economic policies (*alas, with policy decisions left to governments such course changes do often take decades and are, mostly, not sufficiently radical and liberating ones. The exploitation and waste that result are enormous*). It was not the own insight, but only the strike of the workers and savers in 1923 and 1948 that had forced the ruling powers to stabilize the currencies and thus to attempt to re-establish the hoarding and accumulation function of money. Hugo Stinnes and Friedrich Minoux, his former general manager, repeatedly declared, still in 1923, prior to the stabilization, it is "still too early" (i.e. one's nest was not yet fully feathered), and the governments as well as the trade unions yielded to this vested interest view (*the creditor-millionaires largely disappeared through the inflation while the large debtors appeared as the new*

millionaires). Nobody appeared in parliament as a spokesman for the people, whose standard of living had sunk to approx. 1/10 of the previous one. In 1948, behavior of the allied and of the German carriers of sovereignty was unfortunately the same. In both cases, reorganization was enforced only through strike of the producers and the savers; the other motives were secondary compared to this driving power.

g) An economical satisfaction of the striving for security

The satisfaction of security needs appears first like the hypothesis of consumption. It is well known, that one wanted to remove "consumption" considerations from the "rational" economics, as a supposedly irrational factor. However,

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the economical satisfaction of this need is, indeed, a problem of economy, whose treatment is even very productive. In any case, to meet hoarding and accumulation needs costs something. The only question is, whether the costs of the irrational covering of the misled hoarding and accumulation drive are not very much higher, perhaps even 10 or 100 times as high as the costs of the metallic value standard. Here only some results of such investigations shall be briefly given.

1. The hoarding of trade goods is uneconomical, since the billions invested therein are depreciated within 10 to 30 years by wear (clocks e.g.) and getting out of fashion (cameras, etc..). Still more uneconomical are very luxurious goods (e.g. of clothes, meals) and the hoarding of foods, which spoil.

2. Hoarding in precious metals, coins and bullion, is very economical (*this passage is doubtful to me. The production of other goods is not multiplied thereby and only the capital can be preserved. So many may flee into rare metals that their paper money price might then rise excessively. Many years ago it peaked at around US \$ 800. Whoever does then sell his rare metal stock at its highest price can greatly profit from this.*). (Here one should distinguish between

private people, trying to protect themselves against the consequences of monetary despotism and the hoarding of central banks, accumulating a superfluous "cover" or "redemption" fund, instead of merely reckoning in gold-weight value units. Such central hoards are superfluous and wasteful. The free market for gold is a very good substitute and it does not cost the taxpayer anything. 99 % of the goods necessary for this are already present and do not have to be produced first and taken from the national product. The present owners (the American taxpayers) are not satisfied with today's removal of the hoarding and accumulation item gold from circulation, at their expense, and look for its redistribution, even look for their own security in gold. However, it is crucial, that under a pure gold currency all monetary obligations denominated in gold units (fixed interest securities) (*here one should add that few of them are nowadays so secured!*), the outstanding mass of hoarding and accumulation goods become security goods at the same time, because liquidity and safety precautions do match to a large extent; so that they do not only cost nothing, but strongly stimulate credit. Compared with this result the costs of gold that is so utilized is negligible.

This simultaneous covering of liquidity and security urges does not exist under (fixed rate-) paper currencies (see page ...), because there only the liquidifiers remain partially in money, while the hoarders go for goods. Thus, the whole machine, whose effectiveness lies in the fertilization of long-term credit, runs dry, so to speak, runs even backwards because of the additional and economically useless hoarding and waste (*without consumption!*) of trading goods. What a beautiful machinery did today's laymen accomplish – only it doesn't work! (*I think it is neither beautiful, nor cheap, nor does it work and, most importantly, it is an unjust imposition.*)

3. One has to keep in mind that the price formation function of a single hoarding commodity should not be overloaded. As many as possible stable value accounting- and security and accumulation measures are to be made available, when trade desires them, and commodity prices must be left as far as possible to their free formation. If, by national decree, all commodity prices, possibly also foreign exchange rates, stock quotations and wages would become fixed, then gold would therefore be the only price-free commodity (*more correctly, then it might remain the only not price-controlled good. But the centralized and monopolistic decision-makers do at least attempt to fix its "price", expressed in their forced paper currency, as well*). Its price formation would then become completely abnormal, since all spare funds, under various psychological motives, would attempt to make gold purchases or might, suddenly, dissolve their gold hoards. By such excessive fluctuations, gold would be prevented from playing its proper role as a hoarding and security accumulation metal, since its price formation would move by leaps and bounds.

Something similar happens in the foreign trade in goods and gold. When, by quotas or tariffs, all or nearly all goods are inhibited in their freedom to move, then gold can be the only tariff- and quota-free commodity. Then, under balance of payments changes, the balancing function of gold would be overburdened, it would flow out or in excessively (*the main factors are here, probably: 1. compulsory gold redemption for the issuers of gold certificates and 2. the legal and juridical claim of creditors to payment in gold coins. Whenever, to the extent and as long as gold weight units are merely used for reckoning and accounting purposes in expressing prices, wages, clearing transactions and value preservation clauses in credit contracts, according to their value in a free gold market, i.e., when metallic gold does not have to be delivered (apart from its purchases and sales on a free gold market), then the quantity of gold that is offered or asked for on a free gold market plays only a small role, i.e. the purchasing power of gold would change only a little and large gold quantities would then, usually, not be moved across borders*). Therefore it is necessary that many goods can be exported and imported freely, so that these would primarily take over the balancing function, and gold having to cope merely with the still remaining balances (*even the remaining balance could be paid in freely transferable clearing certificates reckoning in gold-weight units as their value standard*). Likewise it is better when several popular hoarding and accumulation goods are available in the internal economy, so that the whole security function is not based on one single commodity alone, e.g. on gold, but is better distributed.

§ 4. Importance and relationship of the money functions with each other

We summarize: Money, as means of payment or clearing, serves to transfer claims and debts, and, as currency (value standard), serves to measure and to keep values.

Not all kinds of money fulfill all of these three functions. Money, which serves only as a legal-organizational means to settle, without being value standard money, is also called means of payment or means of clearing (offsetting or settlement). It is deemed to be imperfect and dependent money, or "accessory" money. In order not to deviate too much from linguistic usage, we do not (in contrast still to Knapp) deny it money character.

The function of measuring values and expressing prices is the nature of a standard. The standard is money of a higher degree than mere means of payments. Means to express prices are always and at the same time means of payment or means of clearing; a currency unit, which could not at the same time be used as such a means, could not express prices, because it could not allow value comparisons in the formation of prices, and therefore cannot be standard-money. Standard money is called "valutary" (German: "valutarisch"); thus it has not only the functions of expressing prices and of paying, but this payment function is special: Valutary money, the standard currency, is always either legal tender (money with compulsory acceptance and forced value) (compare § 11 "paying power") or it contains in itself a generally recognized and undoubted internal value: it is self worth money (e.g. metal money).

To raise a standard money, which ranks second in money quality, to perfection, the third money function is still required: the function of hoarding, which has two purposes: the function of liquidity and the function of safety. Without the hoarding function price formation in a perfect credit economy cannot come about, namely the free choice of individuals between purchase and non-purchase, and without it a money's function of preserving value is not given either. The money of a perfect currency thus comprises all three money functions, a standard only two, means of payments only one.

Apart from these three main functions of money some secondary functions are to be mentioned still: Money can be used for tax and tariff payments, also as gift. It can

also be handed over, in simple exchanges for goods over the counter. Juridically this is not or not always a question of resolving debts that had previously been generated. All this applies also to "accessory" money.

Value standard money, as far as it is not metal money of real value, but paper money that, by government regulation, can be forced upon others (legal tender), can also be used as a kind of unnoticed tax in favor of the State, as a "requisitioning certificate" (de Viti de Marco), and generally as an instrument of business cycle- and export policies. Thus and for this special form of money we can also determine a further function. Perhaps one could further say that it actually creates the credit economy and its special way of connecting production and sales by incomes

and income use. However, this characteristic of money might go beyond the teachings of the functions of money.

Later, the main business branches of the banks will correspond to the three functions of money: payment activities, the trade in liquidity and the trade in securities.

(J.Z.: pages 40 to 51 seem to be missing in this manuscript, if one considers only the page numbering. But according to the contents list, no chapter is missing. Rittershausen has probably transferred the material previously contained in pages 40 to 51 to later chapters. On this page, Rittershausen has changed so much by handwriting, also in the original contents list, that, perhaps, I did not correctly transcribe all details.

One of his notes is, however: "(40-51 are missing)" - Did he still wish to insert something here or merely point out that the side numbering is interrupted in the newer version? - J.Z.)

(There are 5 versions of the manuscript, with even the 5th remaining unfinished. He took parts of the earlier versions into the later ones. I haven't got the complete set of the 5th version, especially not a ca. 80 pages transcript. The photocopy of it did get lost somehow and is not readily accessible at the University of Cologne.

Thus I could only partly reconstruct the latest version and I do not claim that I did so always quite correctly, although I tried, using the pages of all version that I had in photocopies, made with his consent and that of his wife, while I lived for a while in their house, browsing through his library and papers. He wanted me to translate some of his writings into English, e.g. his Fischer Lexikon. It did not feel up to it and was and am more interested in his monetary writings, still not made fully accessible to the current "science" of economics. - J.Z., 16.2.06.)

Preface

(Handwritten notes: "Definition of the spoon [Withers?])

§ 1: Payment is clearing, has nothing to do with liquidity.

But § 2: Price expression: Is that equal to barter with something? No, the uniform value standard of a currency would be missing there.

§ 3: Hoarding? Here more liquidity.)

The different kinds of money

We differentiate three kinds of money, i.e.

(later five! - 3: a, b, c were changed in the contents list to 5 after he added metallic redemption money and clearing: § 5 - § 9.)

1. High-quality liquidity

§ 5. Self worth money,

§ 6. Redemption money, (*Goods and service vouchers as well as tax foundation money are redeemed, too, in goods, services and tax receipts*)

§ 7. Fixed rate money (*I think that "forced rate" or "fixed and forced rate" would be a better description. For one might also say that the value standard unit of a currency is, e.g., a "fixed" weight of gold. "Fixed" does not "fix" the expression problem sufficiently.*)

§ 8. Market-rated money

(§ 9. Clearing: However note: "no, take out, is a function!")

2. Liquidity of lower degree

Clearing

Liquidity (to add "liquidity" here, as number 2, does not make sense to me at all. I would also contend that "clearing", to the extent that it is possible, amounts to "liquidity" at a lower degree. Popular opinion might consider it as such precisely because it hardly considers clearing at all and still thinks in terms of cash, coins or notes. These still have to be transmitted with, sometimes, considerable time, effort and even risk involved. While clearing or non-cash-payment could at least now be carried out easily, even automatically, at electronic speed. But when it comes to paying for the goods in one's shopping basket or for a newspaper then cash payments are usually still faster.)

Here, one must be aware that under "kinds" (§§ 5-8) only the physical money is meant. (Only the kinds of money, which are physical or appear as accounts, can be divided into kinds, a "nothing" cannot be divided). When, as shown in § 1, two equivalent claims face each other, which are then extinguished by set-off and make way for a 'nothing', and when I consider this reduction to nothing (mutual cancellation, skontraion) as a monetary activity, then this money cannot be included in the theory of its kinds. If, however, as we did in § 1, we consider the credits (debts) that are then and thus confronted with each other, as money, which is a question of definition, wherein the qualification must be made that quantitative discussions are here inadmissible because of the possibility of clearing, then one can speak here as well of a "kind" of money (*in clearing ANY AMOUNTS can be cleared, without reducing the value of that clearing. On the contrary, the more goods, services etc. can be easily paid for via clearing against the own goods and services supplied to the market, the more valuable does clearing become. It does not depreciate, provided only sound value standards are used. It might come to settle the sale of all of our outputs and the price for all the purchases we are able and willing to make. Thus notions of this kind of "money" becoming, according to the Quantity Theory of Money, less valuable, the greater use is made of it (the more genuine clearing certificates are issued and accepted, the greater the total amount of these turnovers are), such ideas are quite misapplied here and rest on a misunderstanding of the nature of clearing. In this case the "money side" and the "goods side" are always and automatically balanced. - My IOU is just as good as your IOU of the same amount, when they are cleared or set-off against each other, quite regardless of how high or*

even how enormous the amounts are that are so settled. Trillions of dollars can be just as easily cleared as three dollar debts and this without reducing the value of the value standard used and without a single gold coin changing hands. - On the contrary, the easier and more extensive clearing becomes, as a payment method, the lower will be sales difficulties or transaction costs for goods, services, labor, capital assets etc., which means, that all of them can thus be acquired more cheaply, with less friction. All debts and all credits could come to be settled thus, always honest transactions presumed and the use of sound value standards. - Less advertising will be necessary, less bank robberies will occur. The clearing certificates and clearing accounts will, so to speak, come to chase the goods, services and labor, instead of the other way around. - The often cursed "thirst for money" will finally become thoroughly and lastingly quenched. - But one will still have to make sure of offering one's fellow men goods, services and labor at acceptable standards. - Then only a common fight against computerized fraud remains).

For the further justification of our classification the following may serve: One can discuss money according to different subdivisions: according to the material, out of which it is made, according to the functions, according to the inclination of the large mass of the population to possess money of a certain kind, briefly: to hoard it, finally, according to legal or juridical regulations of acceptance. The grouping according to materials did not satisfy, because there is money without any intrinsic value, e.g. book money, which at least seems to defy this classification principle. Moreover, and apart from this, it was demonstrated, that completely contrary experiences could be observed with one and the same money, made from a certain material, because from the same material wholly different kinds of money with completely different economic and legal effects can be produced. Thus, by means of this old

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classification much confusion was caused. - The classification according to functions would certainly meet the nature of money more closely, however its functions do obviously depend on its physical, legal and economical configuration, i.e. in particular on its payment power (chapter 3), its rate, its issue and its reflux, (chapter 4) (J.Z.: in the last contents list available there is no chapter with such a title! - see the later chapter 3: "Two contrary theories of the State." - J.Z.) so that a classification according to functions should not define the kinds of money. Concerning the kinds of money the decisive thing is, that in the economy, especially today, there is not a homogeneous quantity of money on one side and a quantity of goods on the opposite side, like the primitives of today might imagine. The most diverse monetary phenomena, differentiated by their emergence and their disappearance, separated by enterprises, differently shaped, according to the "entities, enterprise and household (private and public ones) hook up with each other in a circular flow, face each other, are balanced and perform the equivalent to the goods cycle,

without facing it in terms of quantities. – Therefore we will make the legal and business regulation of payment power, i.e. the acceptance, the basis of our classification (*I think that here he should have added: Also the readiness to accept and, in case of the issuer - and by contract of his debtors, the obligation to accept. - The actual acceptance is only the last action. To bring it about the other mentioned features are required. And these are also conditional. E.g.: The acceptance must be, as a rule, for other services than of the special tradesman able and willing to gold-late church steeples or of a publisher like me, who largely only offers libertarian microfiche. - Especially important for the acceptance of a competing, optional and market rated currency, one without legal tender power in general circulation, is its acceptance for daily wanted consumer goods and services. And, while all of us remain tax slaves, its acceptance in payment of taxes*). As will be it shown later, upon it depends the "entrepreneurial" subdivision of the phenomena of money.

Therefore and first of all, our classification differentiates between tangible asset money (self worth money) and money without material asset value. The essential point in every economic phenomenon is the emergence of value and of prices. For both kinds of money these occur in completely different way. The price formation of "self worth money" takes place in the goods markets, since this money is firstly a commodity and it is traded as such in the goods markets. The last named money "without material value", in absence of all goods character, obtains its value in a different way: by its "acceptance", which will be discussed in more detail later, and of which very different kinds exist.

The usual simplification of monetary theory down to considering only one kind of money appears to be inadmissible; obviously and by no means can all monetary phenomena occurring today on the Earth's surface, not to mention the examples of monetary history, be explained by this primitive tool. It is a decisive task of monetary theory to explain, without difficulties, and at the same time, all the multiple monetary phenomena, split up by enterprises, of the present and the not so distant past. (Val. F. Wagner).

Firstly, we turn to self worth money.

"Self worth money" is that money, which carries its value in itself, which thus derives its value from its secondary character that still exists besides. Naturally, the words "value in itself" do not mean that such a commodity value would develop without the existence of a supply and demand curve; rather, it develops straight by that, exactly like with other goods, although with a special curve shape, like that of hoarding and security accumulation goods (§ 3). In a more ostensive way, one could also speak of "metallic money"; however, then one would have the difficulty of exempting all change coins and other non-full-worth and non-valuationary coins. Because of this a special expression, "self worth money", is necessary. Self worth money is almost always metal money of full metal value; different kinds are out of the question for reasons of coinage-technique as well as because of the hoarding and security accumulation concepts of present mankind, except for remainders of present primitive cultures. Money minted from inferior "materials", e.g. silver, whose metal value remains below the nominal value of such a coin, is, as Rostowtzeff called it, a "metal Assignate", usually one could say government paper money printed on metal plates. It does not rank among self worth money. –

For money to be "self worth money", it has to be of full value, i.e. its metal content (fine, thus without base admixtures) must satisfy the coinage standard. If 1 g gold is the value standard unit, then the coin representing this unit must really contain 1g of fine gold and not less (it must be of full value). Self worth money (always full value) is thus defined by its precious metal content. In the definition, it is not important how much this quantity of precious metal is worth; important is exclusively its quantity. It is thus defined by the physical mass (g, kg, ounce etc.). The "rough weight" (including base admixtures) is irrelevant; its "fineness" is decisive.

Why can such pieces of metal serve as money, even as a value standard? Because they serve as hoarding and security accumulation objects (§ 3), not because of their usefulness as raw materials etc.. Usually, the criteria are irrational, which turn it into a hoarding commodity or fail to do so. Generally, it is a matter of people's deeply ingrained concepts, which are given with the entire cultural surroundings and which can be changed or methodically transformed hardly at all or only with difficulties (*Alas, by now even depreciated and depreciating paper monies, with their fictitious, manipulated and exploitative paper "value standard", are all too widely issued and for all too long accepted, rather than refused, as if they were stable enough and were the only kind of money possible, and this without protest, opposition and resistance. It, too, is habit-forming, like harmful narcotic drugs, like alcohol and tobacco, as well as too rich and too much food, not only for its criminal issuers but also for its victims. - One should remember, though, what Beckerath had pointed out in one of his papers: If only all the monetary prohibitions and penalties were dropped, sound value standard reckoning would tend to become automatically introduced and this relatively fast, for, e.g., capital would stream primarily towards those, who guaranteed its value as far as human beings can do so. - The first wage agreements including gold clauses would also become fast and widely imitated.*):

There is a most general and natural demand for such self-worth-money with full value for security accumulation and payment purposes, as well as for industrial consumption and jewelry. With the general presence of self worth money the government, too, will gladly be ready to accept self worth money, since also the citizens will be ready to accept it in return as means of payment (*however, if a government wants to finance a not so popular war with its forced paper currency, then self-worth money will tend to become outlawed because it is too good compared with the government's paper money and would provide a sound alternative to it. Compare the origin of the inflated "greenbacks". During the US Civil War only in California did rare metal coin circulation continue and predominate*). The large mass of creditors will accept it in repayment of their claims. Also in immediate transactions of handing over goods upon payment one will be able to use it easily. It carries its value in itself, since it is valuable by itself, it is self-worth-money. When these value concepts are strengthened over historical periods lasting centuries, perhaps millennia, it will, generally, be the only standard of value. Thereby, it is actually only money in the sense of a means to express prices and to hoard. Thus it represents the value standard of a currency and has, at first, nothing to do with the goods side of the economy. From this, a superficial and modernistic view drew the conclusion that one could completely eliminate the merely "annoying" goods character of money and could switch over to valutary paper money (*forced value, monopolistic, centralistic and and legal tender, i.e. to money with compulsory value and compulsory acceptance*). Still "more clever" authors and statesmen were of the opinion or practised it, to leave gold stand, for the "stupid masses", as a mere façade, but to take away from it every significance and to "tacitly" switch over to valutary paper money (*legally forced, exclusive, centrally issued paper money with compulsory acceptance and a compulsory and fictitious paper "value standard" - The harmless sounding term "valutary" is like the term "legal tender". Very few, even among the academic economists do fully understand it. Likewise, very few among the jurists. Practically none among the journalists and other writers on economics. Even less among the readers in the general population. In other words, it does not carry the "lightening flash and thunder" threat quite obviously. It minimizes the significance of what is involved here: monetary despotism, leading to wars, revolutions, mass murders, civil war and extensive and prolonged exploitation and involuntary unemployment, poverty and loss of property. During the big German Inflation and the Great Depression, both based upon legalized monetary despotism, Germany lost more, economically, than in WW I. Moreover, thereby the Hitler regime, its crimes and WW II were made possible. Such implications should never be glossed over by a term that hardly anybody, apart from Knapp, ever used and understands. One should use straight and honestly descriptive terms that will be hard to misunderstand, like e.g.: Inferior money and depreciating money, imposed upon all by the State. Etc. Kein "Blatt vor den Mund nehmen!" Speak and write openly, clearly, with sound judgment, hiding nothing behind harmless sounding and widely misunderstood words. - Step on toes that do need stepping on! Even grind on them - as long as you can do so without fear for your life or liberty!*).

However, this is based on a misjudgment of the nature of self-worth-currencies, which require a much more thorough analysis. Self-worth-currency, as shown by the example of the full value gold money, would in this false view be merely a paper currency printed on gold plates. But that it is not. To the essence of the gold value standard currency belongs, quite indispensably, its twofold aspect, namely, that, on the one hand, it is the value standard of a currency, thus an accounting unit, in which commodity prices are formed and expressed. As such it is, at first, quite separated from every possibility of being a commodity itself, because, at first, its price cannot be expressed. For an identical equation 1 Lira (Mark, Tael, shilling etc..) = n kg gold, or n g gold = n g gold, would not be helpful. Against itself one cannot measure any standard measure. On the other side, however, the goods character of self worth money does exist and remain. That is even decisive for the nature of self-worth-money! Here a feature is conclusive which has never as yet been described in the

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theory of the gold value standard currency (1):

Indispensably, the gold standard currency, like all self worth currencies, needs a gold market.

The self-value of this money would be a pure assumption, perhaps one bequeathed from distant historical times, one that could never be proven to be true, if there were no competitive price formation of this hoarding good (usually gold and silver). Without price formation, and that means without public price formation in as perfect a market as possible, no value at all can, without doubt, exist generally, in the long run. It is precisely the market price formation that is the open and unvarnished answer to all questions and doubts of the mistrustful! A continuously doubted value, however, will, one day, become a reduced value, if it cannot manifest itself again and again, undiminished, by means of purchase prices fully paid in cash. Therefore, for a gold or silver value standard currency, where hoarding and security accumulation plays a crucial role, a functioning gold or silver market is an absolute precondition for their successful operation.

Now it seems that a market in gold is not possible, if the gold units would have to be measured, i.e. traded, in gold units. Then and obviously, the gold price of 1 g would always turn out to be = 1 g gold, thus the above-mentioned identical equation would result. Thus a device is necessary, to constitute the gold market as an exception of all market and price events of a country: a special market is established, in which prices are not determined in gold units, but in units of a particular other means of payment or several other currencies. Thus the prices e.g. in a gold market to be established today in Germany could be denominated in the usual (valutary) D-

mark notes of the German central bank (the "Bank Deutscher Laender"). On the Paris gold market they are likewise determined in valutory notes of the Bank of France, accordingly in England in Bank of England notes. Here, it is not decisive, that those monetary units are valutory, in which the gold price is noted. They can be just as well of an accessory nature (*optional, refusable, discountable, market rated and compertitive note issues*), thus only means of payment, and not the value standard units of the main currency.

Thus a third feature arises. The gold market artificially created in such a "free port zone" (it only needs to be a room in the stock exchange building or a table in a Café

(1) Except the author in the "Das andere System", 1932, Page

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or regular telephone connections, as in Tanger), in which gold is not value standard of the currency, but is a commodity, is, nevertheless, not a commodity market. For this market is artificial and does not trade in the national currency. (*This I doubt, so far. It may also use the national currency in its evaluations. But measuring the gold weight unit against the major currencies of the world is its main function.*) But it is much more than that and provides much more valuable services: It daily states the value (the rate) of the various kinds of paper means of payment circulating in the country besides gold. (*I believe that the free gold market in Tangier evaluated all major currencies, especially since in most other countries free gold markets were not permitted.*) It is even better, still, when the determination of the price of gold is not only made in one currency, but in all important domestic and foreign countries' monies, that do turnovers. If gold coins have an agio (extra value in comparison) of 10 % in DM notes, and they are thus noted with 1,10 DM, then the DM note has a Disagio (discount rate) of $1/1.10 = 9.0909... \% = \text{about } 9.1 \% \text{ against gold}$.

Thus, by a simple reciprocal reversal of its rates, the gold market forms a gold rate for paper monies. Only through this does the gold standard currency become perfected and classified as more efficient compared to paper value standards. A currency value standard which, by daily public price formation allows everyone control over the value of the paper means of payment used by him, and whose intrinsic value has been relatively stable for centuries, must inspire a quite different trust in its security and thus in its liquidity and security accumulation suitability than a paper value standard currency subject to uncontrollable and generally unnoticed influences and, unfortunately often connived the insufficiently informed or stupid people.

The problem of a separate special gold market, disconnected from the currency area, (*) offers, naturally, juridical difficulties, too. The absence of its theoretical preparation may have contributed to the critical situation of the gold standard in the present time. An added economical factor was that the connections between gold, publicity, hoarding and security accumulation quality and the necessary critique of paper means of payment, all of which are depending upon a free gold market, were not clearly seen, but only somewhat suspected. *(To this must be added the accumulated bad experiences with the claim of creditors for payment in metallic gold, instead of creditors possessing only the right to be paid the **value** of a number of gold weight units (here used merely as a value standard, not as a means of payment) and this with all kinds of other means of payment than gold coins, or with clearing certificates or transfers from clearing accounts, all freely valued on a free gold market, all means of payment which only their issuers have to accept at their full nominal gold weight value. U. v. Beckerath has often pointed out this flaw of the "classic" gold standard, which is just one of several. For those debtors, who **can** pay in metallic gold upon demand by a creditor, it is suitable. But for those, who, essentially and mostly, can pay only with assignments upon the own goods and services, it is often disastrous. There is a very great difference between the **freedom** to pay with gold and the legal and juridical **obligation** to pay in gold. / One should, e.g. consider how few of one's present bills one **could** pay in gold coins. / The **legally** prescribed metallic redemption obligation for note-issuing banks should be abolished as well. / This kind of security can very well be replaced through the free market rating of bank notes on a free gold market. Then the issues will always strive to keep their notes at par with their nominal gold weight value. For any considerable disagio (discount) would rapidly lead to extensive refusals of their notes in general circulation. Then only their issuers (and by contract their debtors) would still have to accept such banknotes at par. / Those really needing metallic gold could satisfy their demand on a free gold market, paying there for metallic gold with the most diverse means of payment, at their free market rate against gold weight units, these serving there as their value standard.)*

() (It could and should also be established within any area ruled by a more or less despotic central note-issuing bank and its nationally prescribed currency value standard! - But then, to be a genuinely free gold market, it must not be subject to the national legislation for that currency area at all. That is, naturally, not easy to achieve and thus national paper currencies are, mostly, more accurately evaluated in foreign free gold markets. - Towards foreigners the national currencies have no monopoly and no legal tender. While the Reichsmark was still under the gold standard, there were no legal obstacles to a free gold market in Germany. But that this free market was more important than the legal gold redemption obligation was then not recognized and is not recognized widely enough even today. When there exists a free gold market and a paper currency is not legal tender, then the gold redemption obligation can be dispensed with, likewise any official or private gold hoards for banknote issues - while maintaining gold-weight pricing and reckoning and keeping all competing banknotes at or close to their nominal par value with gold weight units. - Then the much higher transaction costs of the redeemable gold standard banknotes would soon drive them out of business. Paper banknotes as good as gold for most practical purposes and, in some respects, even better, would then be widely preferred, by issuers and acceptors alike. Alas, this model of a gold standard is not as easily and widely understood as is the ancient and objectively outdated gold redemption model. - This in*

spite of the fact that a free gold market provides a much larger "cover" for sound exchange media, also a larger convertibility option than any public or private gold hoard can offer and in spite of the fact, that it is a much better, more reliable and faster indicator of anything wrong with any particular banknote, clearing certificate or other exchange medium. - The part-truths of the "gold bugs" will not suffice. Nothing but the whole truth and full liberty will do, in this sphere, either.)

Naturally, an ongoing critique is necessary for all paper monies; since they are, to a special degree, merely human creations. Precisely here lies the politically decisive "weakness" (*Strength!!! Or "weakness" - from the statist point of view.*) of the gold standard with a free gold market: It subjects the presidents of the note-issuing banks to such a merciless control and uncovers deficiencies of the State's finance, also of the business conduct of the mostly supervising Ministers of Finance (*mostly amounting to mismanagement*), so ruthlessly, that a kind of "International League of Finance Ministers and of Presidents of Central Banks of Issue" was formed with a tendency against the gold standard currency.

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It is too comfortable to be able to dispose of public funds uncontrolled, it is too pleasant to be able to violate, with immunity, even certain beginner's rules of note issue banking. Why subordinate oneself to such strict controls by means of an objective market? For these people it is better to just propagandize a free-market economy while preventing it in their own circles, and not to permit a free gold market. (*Any other than a quite free gold market does not really deserve the name "gold market" Alas, for many decades now, we have, at best, had only government-rigged gold markets and "free" gold markets that became also victims of monetary despotism, e.g., as exclusive refuge options for millions of people otherwise swindled by their own governments. - or as "free" gold markets from which governments, at the expense of their tax payers, could extract huge amounts for their gold hoards, or into which they could, more or less upon whim, suddenly release huge quantities of their hoarded gold. - Everywhere the "Fort-Knox-Complex", expressed and practised by ignorant and prejudiced "leaders", to the disadvantage of everybody but themselves. They are highly paid and finally rewarded with huge pensions. - How much did Alan Greenspan get, the former advocate of the conventional redemptionist gold standard? - If ignorance were really bliss, all these people must really live very happy lives.*.)

(Rittershausen made himself very unpopular in the circles of officially and popularly recognized "experts" by a remark, the gist of which read: "not the gold standard currency has malfunctioned, but those, to whom it was entrusted." - Quoted merely from my bad memory. - This remark harmed his career very much, too. - U.v. Beckerath always recommended: Never

attack a person. Only ideas, principles and opinions. - But, sometimes, it is rather hard to abstain! - Well, I have no further official career in mind for myself. - And anger and disgust towards our supposed experts and leaders can also become a significant force for finally establishing the required liberties and rights in this sphere.)

A further question is whether self-worth-money should always be given impossibility at par value. Does self-worth-money, thus e.g. the gold coin, owe its value to some "chartality" (Its special legal charter), to the "national legal order"? This impossibility is not necessary, as long as a free gold market is present, because this does prove, every day, the free acceptance of gold and gold coins. Under the gold standard most national laws gave certain coins impossibility, that is, the character of legal tender. That is a superfluum, a policy measure that is redundant. However, such a measure can be appropriate, when thereby certain types of coins shall be promoted in general circulation, in order to drive out the many varieties of historical coins and sorts and to facilitate circulation and control among the public. *(If no coins at all are given legal tender power and free coinage for honest coins is introduced and a free gold market operates then inferior coins will soon have a very hard stand and tend to disappear from circulation. Some will buy them up, at somewhat below their metal value and turn them finally into sound additional coins that are readily accepted rather than refused. Thus I do not believe that legal tender for honest gold or silver coins would be advisable or necessary even as a transitional measure.)* There are also self-worth-coins, which are not legally imposable, e.g. the Maria Theresia Thaler, today still one of the most important currencies around the border countries of the gulf of Aden. Although impossibility might appear favorable in terms of technical coinage, nevertheless it has the disadvantage that by means of it and under certain circumstances the issue of inferior coins by governments is facilitated and they can thus be brought into circulation.

It is also important to mention that the self-worth-currency is the only one, which immediately introduces itself, quite automatically, when it is no longer forbidden. All other currencies must be "introduced" by complicated legislation. The gold standard carries its superiority in itself. Once the prohibitions against it are abolished, then there it is. The pseudo-doubts advanced against it, e.g. where should the gold come from, how much "foreign exchange" that would cost etc., do not really exist *(they are merely imagined)*. When the prohibitions are repealed, then, at first, some merchants, then some people looking for capital and investors will privately agree upon contracts determined in gold value units. Gold is traded everywhere freely e.g. for industrial, dental and chemical purposes (*), despite all prohibitions, also in the USA, Russia,

() (Now it is also and extensively used in computers and gold-leaf-signs are still popular and relatively cheap.)*

England and on the continent. When even the remaining prohibitions are repealed, then, upon the thus arising exchange rates against gold the conversions of gold weight- or coinage units into respective national currency can easily be managed. Thus we have the gold reckoning (or gold-accounting) standard, and this is what a gold standard means, since prices and contracts will soon be generally expressed in gold value units. The question, whether the obligations concluded in such a way are to be dissolved in this or that means of payment, or cleared (offset, balanced against each other etc.) is not a question of currency value standards, but a question of payment and clearing.

It is probably unnecessary to come to speak about a "form" of gold standard, which, really, is not any one: Retention of the gold standard by law and simultaneous prohibition of gold possession and gold trade by other laws. In this case gold is no longer imposable, legally not at all vendible any more, and is thus no longer a value standard. The obligatory "delivery" of one's gold to the respective State, practically always at prices below the free market price, can not be regarded as a substitute for free sales. It rather constitutes a part-expropriation. The seeming maintenance of the gold standard, often going hand in hand with that practice, is only a deceptive maneuver.

Particularly from the view of the gold standard and of the gold market it follows that a purely quantifying mathematical theory can merely investigate only few, disconnected and not even substantial characteristics of money. Morgenstern's theory of games and behaviors, to which we subscribe, without following Morgenstern completely, has other possibilities. The concepts of bluff and deception, e.g. by the management of the note-issuing bank, or other organs of the State, when an exchange rate control through the market "threatens", are everyday phenomena, which are not quantitatively determinable. The reply that I always get "... that they are not allowed to do!" does not do justice to the facts. Monetary affairs deal with the playing and fighting of individual entrepreneurs and of whole payment communities with others, where all methods of fairness and cheating, of trading and crediting, but also of fraud and deception are applied. The scientific understanding of these phenomena is impossible as long as one assumes that all of them are to be understood, exclusively, as physical streams of a uniform and quantitative money supply.

(Here Rittershausen inserted 2 sheets, the first being only one section, not numbered and overwritten:

"§ 7 a The money material." and the second, Page no. 20, followed it. - J.Z.

Note to § 5: The material of money

An isolated function of money, the transmission function, by whose exclusive presence, however, money is not yet established, can be replaced by accounting transactions, i.e. by transfers of credits, and by set-off, i.e. by a special treatment of debts.

Apart from this case, which does not concern all of money, but only one part of its functions, money remains a visible concrete object, so that an objective definition should be possible. That agrees with common language usage, which would not call deposits money, while, for instance, deposits (or storage) of suit-cases in a baggage room or stock deposits (placements in bank vaults, for safe keeping) would contain real suit-cases and real stocks. Consequently, discussing the material of money is important (*in the last two sentences Rittershausen placed a question mark above "deposits" and a "not" in the first sentence and scratched out the word "consequently". His final version can be seen only in the original dictation in the Cologne university library. - My photocopy of it got lost in the mail.*)

The substrate of money is first and always a hoarding commodity; this is subject, as discussed, to special economic laws. It is either not at all or only secondarily a consumption good or production raw material; it can be a valuable (noble, precious) or worthless material or a goods warrant or service voucher. (*Can one truly say, e.g. regarding cigarette currency, that it, too, would be a hoarding good? I do not smoke. How long do tobacco products remain usable? Only exceptionally are even coupons used as goods warrants, service vouchers or means of payment.*)

a. Practically only the two precious metals, gold and silver, come into the question as valuable money materials. At their full metal value, they serve for the production of all three kinds of money: Self-worth-money, fixed rate money (metal weight units given legal tender power) and of market rate money; below full metal value, they serve as substrates for fixed rate money (legal tender, forced rate currency) and market rate money.

b. The remaining metals and other material goods are used only as fixed rate money and market price money; in particular copper, nickel, bronze and its alloys, iron, zinc, aluminum,

leathers and porcelain are usable. *(Even pieces of cloth, slices of wood and bamboo were so used. One of the better books of Paul Einzig is: "Primitive Money". Numerous books describe all kinds of token money.)*

c. Finally, in very much varied ways, paper is used for the production of money. We do not recognize fixed rate money made of paper as debt documents, in spite of its IOU-like aspect, but as the carrier of a compulsory value created by the State, as a "governmental value". With free market rated money made of paper and also out of base metals (b) we have goods warrants etc., which are cashier certificates (bearer instruments) embodying claims against a central office. *(It does not have to be a central office e.g. of Woolworth, Coles, Walmart, or of all Westfield shopping centres, of which there are over 140 in Australia alone, issuing common gift vouchers, accepted by all Australian Westfield centres.)* Transmission takes place like with material money, by means of agreement and delivery; the holder is the owner.

d. Account credits do also serve as money to a large degree, without being money. When they have general compulsory acceptance (i.e. when they are fixed rate money) (forced rate money, fiat money, legal tender money), they are government account credits, i.e. artificial & compulsory values "created" by government, without any character as claims (*). If they are subject to market rating, then they are claims against a central office. (**) Their transmission is done in both cases via book entries.

() (In case of tax foundation money they do embody the right to pay one's tax or tribute or other fees due to the government. - To be able to claim a tax payment receipt can be a very great relief.)*

*(**)(To any office to which one either has to make payments, more or less frequently, or wants to make payments! One does not only buy at central offices!)*

There are three methods to provide paper with value; paper, whose material is worthless and which has a document printed on it:

1. By promising to redeem it at any time in different money, e.g. self worth money and to actually carry out this redemption. For the rest, such money requires no skillful handling. The paper has value as long as redemption continues and at the rate in which it is redeemed.

2. By promising interest payments. That is the case with the so-called fixed interest securities. As long as the interest paid is approximately as high as the national interest rate, the paper will not deviate much from par. However for the rest and due to the change of supply and demand, it will be subject to sometimes larger sometimes smaller exchange rate fluctuations. Such a paper will hardly be useful as money, because the appending coupons are cut off only after considerable periods. Therefore such papers with coupons cannot circulate at their nominal value. Each change of ownership requires a complicated capital and interest calculation. Further, to achieve the seemingly so simple agreement of its nominal interest rate with the national interest rate is very difficult in practice, so that its daily rate deviates from this parity, mostly substantially.

3. A still further way to make an in itself worthless document suitable for circulation like money is to arrange for an enterprise with very large cash transactions to always accept this money at full nominal value or to induce an entire population (*a private payment community would suffice, as Rittershausen & Knapp point out elsewhere*) to accept such notes, voluntarily and out of self-interest. Finally, governmental compulsion could be used to enforce the acceptance of the document at its nominal value. (*This last method can work for a long time but not indefinitely. Usually it is abused to gradually inflate this paper, thereby raising the nominal prices of all goods and services expressed in it, until, in its final stages, it is generally refused, in spite of its legal tender character. - I think that Rittershausen should not have included these different forms of money under his single point 3. - With sound tax foundation money the compulsion might exist only in the fact of compulsory taxation, for which a government paper money is accepted at par with its nominal gold weight value, although such paper money would not be given the legal tender power in general circulation. Only the tax collection offices would then be obliged to accept such paper notes at par.*)

There is nothing further to be said about the redemption money dealt with first. Interest-bearing money, mentioned under 2, occurred with us during the last few years only in the form of tax credit certificates, not discussed here, but which are in use in the United States of America,

too. Of the monies mentioned under 3, whose value is based on acceptance; the last named will interest us now: that is, money given a nominal value for every subject through State command.

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§ 7. Fixed rate money

The general voluntary acknowledgment of the value of material assets by means of a constantly forming public opinion, going back at best thousands of years, concretized in a demand and a market price formation, which characterizes like real value money, can be replaced by governmental command (*a State's command is effective only within this State and even there only for a limited time and to a limited extent. Once such a paper money is already very much depreciated, then even the death penalty upon refusals to accept it will no longer be sufficient to achieve its general acceptance in all internal transactions. Lastly, even public servants, policemen and soldiers will refuse to accept it*). This becomes necessary when the commodities have no inherent and corresponding value, but are, essentially, worthless, e.g. paper (*paper is **not** valueless. When I still issued my PEACE PLANS issues on paper the costs for paper and ink, as well as postage, were my largest expenses. The same applied to the duplicates I produced via photocopying. Mises once said jokingly on this: Only the State can turn two as valuable commodities as paper and ink into worthless scrap (quoted not literally but from my flawed memory.) Towards the end of the great German inflation from 1914 to 1923, the printing costs of the paper money amounted already to 48 % of the purchasing power of the freshly printed and usually high denomination notes. Only at the beginning of an inflation are the paper- and other printing costs relatively insignificant, at least for the larger denominations.*). When government legally orders general compulsory acceptance at nominal value, then an absolute value (*only a fictitious, artificial, fiat, legal and juridical "value", one that expropriates the creditors in favor of the debtors, corresponding to the degree of its depreciation*) is made from a money material or money deposit, no matter how valuable or worthless it was before. This is done by government command, exactly as if one had taken a piece of gold from the soil. Indeed, now and then one has compared banks of issue with gold mines, not quite incorrectly. (*Here, too, the labor, raw materials and capital costs play a large role, apart from happy finders.*) (*Ri's terminology is exaggerated here. E.g.: "absolute value" instead of legally imposed nominal value or "fiat value". I do not remember whether I pointed that out, sufficiently, in my previous notes. Legal government commands do have their limits, here, too. But, without a doubt, they can do much wrong and harm for all too long. - A legal tender note is not exactly like a gold nugget or coin found in the dirt, either, regardless of legal pretences. However, if taxes are determined in gold weight units and government paper money is accepted at tax offices in payment of taxes as if it consisted of equivalent gold coins, then and thus a par value between such paper money and*

gold coins can be established at least there and for this purpose. - But on a free gold market such legal commands are not effective when there is not sufficient tax foundation for such paper money. Then and there such paper money, nominally expressed in gold weight units, will suffer a corresponding discount against these gold weight units.)

By general compulsory acceptance at nominal value, which creates fixed rate money, usually still called fiat money, forced currency or legal tender paper money in the older terms, acceptance and that at the rate of 100 % (fixed rate) are prescribed, under threat of penalties, for everyone trading in a government's territory. Therefore, a disagio or agio (market-rate) of such money does not exist; all market rating is made impossible. It is similar to a legally fixed price for a commodity, intensified by legally prescribed compulsory purchase. *(The functionality of forced and exclusive currency is, by means of its forced rate and its monopoly position, almost as much limited and useless as would be a legally prescribed compulsory temperature and air pressure - when using instruments like a fever thermometer or barometer. Legal tender outlaws the only sound "temperature", "pressure" and value measures for its kind of money! Thereby it has even a negative value and, for longer periods, always an indefinite one, but, usually, a more and more reduced value. / Merely compare the price developments in all countries for the last 100 years! Naturally, even a single and depreciating money is mostly better than no monies at all, unless it is completely replaced by free clearing under sound value reckoning. But it is certainly - and this in spite of the best intentions - not better than competing, market rated and refusable monies, soundly issued and withdrawn again and using whatever value standards their users want to apply to them and their goods and services.)* (Tax receipts are such compulsory purchases. For trade with foreign countries reckoning in foreign exchange, according to their market evaluations, may still be permitted. Insofar the legal tender laws would not always apply to everyone in a country, not e.g. to foreign merchants. However, governments keep trying to fix foreign exchange rates, too, or to control them somewhat.)

Since the State also subjects itself to general compulsory acceptance, such money of a forced absolute (fiat or fictitious) value can easily be used for payments to the government, too. Since everyone must accept legal tender money (compulsory acceptance and compulsory value [rate]), it easily finds also use for centrifugal payments, in particular from the treasury to the citizens, as means of payment in dissolving debts, for cash purchases and the granting of credits. *(Finally, under very fast depreciation, even the public servants, the policemen and soldiers do no longer accept it. Peasants will then rather hide food or sell it on the black market than sell it at controlled prices "paid" for in depreciated State paper money. But, until that stage is finally reached, this monetary despotism has already done much wrong and harm. It has been estimated that each of the two great economic crises in Germany, between WW I and WW II, has cost Germany as much as WW II, apart from the blood sacrifices. Its role in the rise of totalitarian regimes, the occurrence of wars and civil wars, revolutions and official mass murders, as well as for private terrorism, is still either totally ignored or underestimated. In this it can be compared with the non-recognition of very active, wrongful and harmful factors like territorialism and collective responsibility.)*

A debt- or credit relation does not exist for fiat or legal tender money or forced currency (fixed rate money), but, rather, a government's creation of value of its own kind, limited in time. *(And in location, namely, to its territory. - Moreover, even for legal tender money a degree of tax-foundation does still exist, in which governments, by their paper money issues and acceptances clear their expenditures with the legal tax credits they have towards the tax payers. - This aspect is important and yet too often overlooked. Not only mere "fiat-money" is involved in its paper money. Partly it amounts to clearing certificates for government expenditures and revenue. - As for the rest, just like with taxation, a degree of expropriation is involved. This expropriation power is somewhat shared with the debtors, who, by means of "paying" their debts in depreciated government paper money, all legal tender in general circulation, are allowed to legally and partly expropriate their creditors. Therefore the debtors do largely support inflationary policies of governments while creditors are, usually, not sufficiently organized against them, or, as wage and salary recipients, are not even fully aware that to that extent they are creditors, too and thus also partly expropriated - but in a way that most of them do not even notice.)* A piece of fixed rate money does, indeed, look exactly the same as a credit document and is also wrongly allocated to the chapter "national credit" of public finance and government budget; but it is a non-credit, governmental and absolute creation of value (*fictitious & coercive or "fiat" "creation"*). (*Value destruction method would be a better name!*) (*It should not be credited with the term "value creation", far less "absolute" value creation. It is much more a "requisitioning certificate" or expropriation document, one that may promise ultimate redemption or indemnification but which, usually, is not so redeemed. At most one can pay one's imposed tax burden with it. Nothing is really fixed or solved with this "fix-it" "fixed rate money". Like the price controls for all other goods, it is, essentially, a failure, one that does not solve any problems but creates new problems.*) The commentary to the banking law, famous in Europe, of the two Reichsbank presidents Dr. R. Koch and Dr. H. Schacht says, correctly, on § 3 of the Bank Act of August 30th, 1924:

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"The banknotes are denominated in Reichsmarks. ... The Reichsbanknotes are, apart from Reichs gold coins, the only unrestricted legal tender means of payment in Germany. ..."

The comment to that says:

"After legislation, on August 4th, 1914, had seen itself forced to waive the obligation of the Reichsbank to redeem its notes, until further notice, no claim at all remained any longer and thus exists out of the notes against the Reichsbank. (1) (This footnote is missing! - J.Z.)

By the way, according to the purpose of the law of August 4th, 1914, one would have arrived at the same conclusion if bearer bonds were presumed to exist, because this purpose of this law was to remove – for the period of the validity of this law – all claims against the Reichsbank and it had to have this purpose. *(The acceptance of State paper money notes, at a clearly expressed nominal gold weight value, in the payment of all taxes and the determination of the taxes, as well as government bonds etc., in gold weight units, while, at the same time, in general circulation State paper money is market rated and has to compete with diverse and freely issued private notes - such a monetary freedom condition was, usually, not considered at all and is still largely ignored by our supposedly sufficiently enlightened legislators and bureaucrats. Many still believe that a war (or the objective of a "welfare State") would justify any injustice, meanness, robbery, expropriation and waste. Just ponder: What did "Germany" really have to "defend" during the first and second world wars? What quite just war- and peace-aims did it have - and had its opponents?).*

The character of the Reichsbanknotes, as mere money tokens, is expressed by the new banknotes, denominated in Reichsmark, by putting in the place of the old redemption promise, that has been deprived, by the law, of its contents, a mere value declaration:

Reichsbanknote **Ten** Reichsmark.

Issued upon the Bank Act of August 30th, 1924.

Berlin, October 11th, 1924.

Board of Directors of the Reichsbank.

From a document with such content no private obligation to pay can be deduced from civil law.

According to this the §§ 793 BGB et sequ. about bearer bonds do not apply to the legal position of Reichsbanknotes *(here, obviously, still one of the pre-1945 versions of this manuscript was*

used. Alas, the corresponding legislation after the war was not any better and, at least with regard to value preserving clauses, I believe in par. 3 of the new German currency act, it was even worse!), but, instead, the legal statements on money. (However, according to the following paragraph, Rittershausen has jumped here from dealing with legal tender fiat money to metallic redemption money. - Alas, this "bank reform" act provided a mixture of both, as he states elsewhere: Mere paper RM as legal tender, and gold coins [as well as inferior silver coins, as legal tender, with these silver coins being legal tender only to a limited amount], with, perhaps, I am not sure on this, metallic redemption for a limited period, and, at least with redemption in gold clause bonds. promised, for the "Rentenmark", that was temporarily issued in parallel to the RM and was, supposedly "secured" by the real estate values of Germany. - This whole legislation was a wrongful and inconsistent mess. But, what else could one expect from statist politicians, ignorant of sound monetary theory & experiences and advised by people like Schacht?) Thus, after § 31 of the new banking law came into effect, the Reichsbank had to redeem a note, even if it was stolen from her, lost or circulated otherwise without her consent. For the justification of this legal effect it is neither necessary nor possible to refer to § 794 BGB ..."

This commentary, which was authoritatively applied in Germany for a long time, appropriately demonstrates, not what is generally valid for "money" but merely what applies to legal tender money alone (fixed rate money), which one had introduced after Germany has not known compulsory acceptance and legal tender for paper money from 1809 to 1909. The measures of

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1909, which had become effective on January 1st, 1910, and which gave legal tender payment power to Reichsbanknotes, thus making them imposable, were, explicitly, a measure of economic mobilization in case of war, and had been regarded as such. Under the influence of the new simplifying and quantifying monetary theory, the new and cataclysmically important measure of the final perpetuation of compulsory acceptance (*and of forced value!*) was hardly noticed by the public. (*Precisely after the vast German inflation from 1914 to 1923 it should have been noticed by the public or at least by the economists. But the close connection between legal tender, the note issue monopoly and inflation as well as deflation is still not recognized in the vast majority of all writings by "economists". - The legislators and bureaucrats hardly ever learn from their mistakes but do, habitually, repeat and increase them.*) It is correct that fixed rate money does not have the character of a debt-obligation. A conjuring trick takes place with its issuance: A debt is converted into money, into an asset, by a stroke of the pen of the legislators. (*Many of the typos in this manuscript are probably due to hearing errors of his*

secretary and were not sufficiently eliminated by Rittershausen in this still unfinished manuscript. Sound and stable value tax foundation money issued by the State, or by a special office for this purpose, would essentially be clearing certificates. With these it would pay for its current State expenditures and with them it would collect the mostly involuntary contributions paid to it. According to long-lasting experiences, the State could issue tax foundation money, with a nominal gold weight value, up to the amount of the tax takings for the next 3 months, without this paper money falling below its par value to the gold weight value standard. However, should a discount of it happen, then the State would stop further issues, in its own interest, until the par value of its paper money is restored. In the absence of the despotic legal tender for it the recipients would then accept it, if at all, only at its discounted rate. As long as it would not be given compulsory acceptance and a forced value, it could mostly be kept at par with its nominal gold weight value on a free gold market. The demand for means of payment to pay the huge tax burden with, a continuously renewed or even increased demand, is also huge and gives this paper money much of its value. (Apart from the general legal tender value it has all too often been given, for general private debtors prepared to cheat their creditors with it.) (But under monetary freedom only the State would have to accept its paper money at any time, at its nominal gold weight value - for taxes also expressed in gold weight value units, exactly as it would have to accept corresponding gold coins. That would suffice. It is a relatively simple clearing procedure for which a legalized tradition has existed for centuries. Nevertheless, it is largely unknown to the current "science" of economics. A monograph on this subject is long overdue. Even Adam Smith pointed out this possibility in a forgotten passage of his main work.) This is not a mobilization of claims, as is the case, for instance, with bills of exchange, but this is the legalized transformation of a balance liability into a pretended and legalized asset (fiat money or legal tender paper money). Since, however, credit relations do not exist for this kind of money, the terms of set-off and clearing and the terms of all non-cash transactions should only be applied with caution. (E.g. with regard to the clearing function of even depreciated and depreciating paper money that has still some degree of tax foundation, in which government spending of its forced paper money is cleared against the debts of the tax debtors, who pay their tax debts with this paper money. - U. v. Beckerath always advised to bring at least one example.)

The commentator forgot one thing: Such notes may not be simply listed in a balance on the side of the liabilities. When they are not debts, then they cannot be rightly treated as passiva, for non-existing debts do not belong into a balance sheet.

Thus we get down to the real phenomenon (*in case of the over-issue of tax-foundation paper money, which is possible only under legal tender and issue monopoly laws*): The government "coins" its budget deficit into asset values, into fixed rate (legal tender) notes, with which it pays, in this form of "cash", all those, who must accept its artificially made (fictitious & forced value) "assets". (*Its victims, however, can still pay their taxes with this paper money, moreover, in their turn, they can legally cheat their own creditors with it. In this way does the State "protect" the rights of its subjects. It does not recognize, respect and protect their monetary rights and liberties, but, habitually and legally suppresses them.*) The central note-issuing bank

receives these notes or the right to issue them from the government, thus it probably owes their return or the counter-value to the government. Consequently, in case of legal tender paper money (fixed rate money), into the balance sheet of the central note-issuing bank not the "note circulation" should be placed but, rather, the item: "debt owed to the State". If this debt to the government, which we know from the similarly constructed Bank of England (formerly an association of government creditors!), is not admitted, then the government gave away these rights or donated (lent) a corresponding privilege to this bank, and this item ranks then among the bank's own capital assets. Then, the amount of its note circulation would have to be indicated in its business report.

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The interrelationships between fixed rate (legal tender) money and the government's budget deficit require still closer explanation. On Nov. 9th, 1944, the author produced the following writ about that and sent it to a considerable circle of acquaintances. It is here reproduced:

There are two theories of government deficits.

The one is the theory of free price and rate formations in commodities and stock markets to achieve a comprehensive (*although not perfect!*) equilibrium between supply and demand in a national economy. This view includes the recognition of the inviolability of individuality and of property rights.

Second there is the theory of compulsory price and rate formation; it includes the theory of the total State.

(This old form of the dictation contains still too many typing errors, misunderstandings and wrong expressions, which were eliminated perhaps only in the new transcript, now not available to me. Much more still, I lack the additional remarks and corrections, which such a good lecturer as Rittershausen, who usually made only very short notes for his lectures, would most certainly have inserted also in the 5th version of this manuscript, the version, which had

very much impressed me at the time of my first and only reading of it. Its photocopy was lost in the mail. Much more so does this apply to the very last version of this work, before printing, which Rittershausen would have supplied, if he had been able to finish it. - Most of my explanatory or qualifying notes would then have become superfluous. The money legislation after World War II is not yet quoted and criticized either.)

In the one case passing on the government's deficit to the citizens is impossible, except by taxes and loans, in the other case it is made possible: The paper money, issued by the government, receives compulsory acceptance and value by it, is turned into value standard currency (*a supposedly lasting value standard, which does not last but is almost continuously depreciated, with or without the hypotheses of Maynard Keynes and Milton Friedman on slow and managed inflations, presumed to be good for the economy.*), measure of all commodity prices and self value of its own kind as gold (*? Very different from Gold!*) (*How ever artificially, nominally and merely by fiat and penalties for non-compliance.*). With this "substitute gold" government fills the pockets of its citizens (*not in its deflations!*), the liquid assets of its companies, the investments of the large capital reservoirs etc. just like with a compulsory loan, which is a tax. Then government uses further means of coercion in shape of quantitative economic controls (centrally planned and directed economies, including compulsory licensing, quotas and price controls.). By such means its kind of "gold substitute" can be imposed everywhere. While the State's bankruptcy (*the official, not the camouflaged!*) is thus avoided, its subjects are turned into paupers (*in Austria a saying was coined on this: Not the government goes bankrupt - but its creditors do!*).

In the one case, limitation of the State to its only legal means of economic coercion, taxes (for some centuries even this was not sanctioned), in the other case expansion of means of coercion: Compulsory acceptance of an often unwanted and illusory (or false pretence) value, to achieve acceptance of a non-value at its nominal value, coercion in formation of rates and prices, always contrary to market forces.

Question: Does a limited or a comprehensive coercion achieve more?

In the science of public finance the question of government deficits boils down to the problem of the size and effectiveness of taxes (in both systems this means of coercion is inherent!), and further still to the questions of tax resistance, refusals to buy government bonds, evasion of price controls, and other indirect responses to inflation (e.g. less work, delivery strike by farmers, commodities becoming invisible in shops). When these four kinds of resistance are as highly developed, as today in

Germany, then, quite simply fiscal productiveness of comprehensive coercion seems to me to be smaller than the revenue from limited coercion. *(Alas, here he does not state the year. Probably the time before the 1948 currency reform is meant. The following inflation and command economy was not as extensive. It was even misnamed a "social market economy".)*

In psychology, not material aspects alone govern and their sheer mass. Already a view into the science of education proves that much coercion (too much compulsion) does often achieve less than little force. *(If it is applied with great and just discrimination.)* Nevertheless, short-sighted parents tend towards the first option just like the military. But what a tremendous disproportion between expense and results! In other countries and in other historical epochs, different solutions are possible depending upon the status of the four resistance types. However, just like in educational science, I do not believe in the efficiency, in the long run, of extended compulsion.

Example: The increase of German note circulation in 1943 by 12 billion RM represented the genuine government deficit. In my opinion, it would have been possible to cover it, easily, by trebling the railway ticket prices for persons, and those for alcohol -, tobacco -, and cinemas, etc., all in favor of the treasury. In my opinion, such a small amount as the genuine deficit can always be raised by taxes. And if one absolutely wanted to leave the governing under class tax-free, then one may tax the rich at 100 %, or just those, who are too much affected by forced currencies *(legal tender paper monies with compulsory acceptance and fiat value)*.

Prior to 1940, the genuine deficit in Germany per year was never more than 3 billion RM, with budget amounts of 50 to 100 billion! (Note: In contrast to the 7 billion RM budget amount under Bruening in 1932).

But the totalitarian idea requires going beyond the limitation to taxes *(including anticipatory government loans)* as means of coercion and the use of more comprehensive means of coercion; thus, fiscally, it requires the exclusive and forced paper currency, the "labor standard", thus the forced acceptance and compulsory value (legal tender money) and controlled prices and rates, also in the markets for banknotes.

Thus, the theory of free market rating is not a useless mental exercise, not a fad, but, of necessity, belongs to that part of mankind's philosophy and of the science of constitutionalism previously spoken about. In economic science, these great teachings cannot be fully developed to their ends without the market rate theory or competitive rate theory of money. (1) *(I do not find a*

footnote marked in such a way, unfortunately.) There are no hybrids. There is no such thing as half-honesty. On this I did already state that, in the long run, honesty can achieve the best business.

The theory of government deficits and of fixed rate money (forced acceptance and compulsory value or legal tender money) thus is part and parcel of the modern and statist theory of the State. Ultimately, its practice is established by the present constitutions of states and of economic systems.

To this, even today, nothing has to be added.

§ 8. Market rate money

There is not only money, whose value is based on the precious metal used (self worth money) or on governmental command (fixed rate money, forced currency or legal tender money), but also a kind of money, which does not require either of these powers or privileges but which, nevertheless, has value: market rate money. The participants in economic exchanges accept money not only upon governmental command, but also when their own interest forces them to do so; when they acquire this money gladly, also for liquidity purposes. Such an interest is present when demand exists for this kind of money, since demand facing a moderate supply creates value, and everyone gladly hunts values, when a large market exists: A value is taken, is "accepted".

But how does one create a demand for a certain kind of money? Demand for a certain kind of money can be produced only by those, who issue that money or want to issue it. The issuer must create usability options for his money. Perhaps he must accomplish a "circular" flow of this money. Especially he must state what shall happen with it at the end of its circulation. Obviously, his money may reach this end at any moment, namely always when there is nobody else accepting this money without distrust, or who regards the possession of this money as useful for himself.

In his task to create a demand for the money to be issued by him, and thus to induce other people to acquire it, the issuer must, obviously, remember the clearing function of money: He must issue this money as a mobilized and securitized claim into circulation, so to speak, he must

sell it; he must find businessmen, who need such claims in forms of clearing certificates or notes, in order to settle claims placed by third parties against them. But the most important point is: right from the start, the issuer must cover the circulated and secured or self-insured claim by an accompanying or parallel second claim, so that the securitized claim (*his soundly issued typified and standardized clearing notes and certificates, designed for easy circulation*) can be expired or withdrawn at any time by clearing them against that other claim. (*Here the sounder part of the prolonged discussion of the Real Bills Doctrine should be taken into consideration, the one which includes the clearing aspect of the competitively issued, optional and market rated means of payment involved, as well as their sound value standard reckoning. This discussion has been going on, on and off, for over 200 years and is still not generally settled, because the side of the metallic redemptionists still ignores the clearing aspect and the sound gold weight accounting and reckoning aspects even when there is no metallic redemption obligation for the issuers.*) Only then is it, obviously, guaranteed, that this piece of money, the note, at any moment, in which it becomes otherwise unusable, has still, as its last utilization, the clearing against that other claim, the process by which it dissolves into nothing. (*In this we might compare the clearing note or certificate with the gold-redemption banknotes, which also are redeemed, as a rule, only in case of suspicion or refusals by others to accept them at their face value. For notes without metallic redemption this ultimate acceptance or clearing at their nominal rare metal weight value, must exist. - With that clearing the mutual debts, the notes and certificates and the distrust or suspicion disappear at the same time.*)

It is much easier than it appears at first, to solve this task, so far described only theoretically, in the banking and financial practice.

This can be done in several and different ways. It has been solved in history and in the most diverse countries in various ways. An especially famous method, which was invented in China and later by the Scottish issuing banks, is the following:

The issuer delivers the new money, claims securitized as notes, only on loan, and has the receiver promise him repayment. Through the repayment promise the bank still has, firstly against the receiver of that promissory note, a claim to the amount embodied in that note. Quite exceptionally, under repayment of this debt here not a repayment in the usual national currency is meant but, instead, the return of notes of the same kind, to the same amount and of the same bank of issue. Further, the issuer insists in his loan contract that the other party, now called

debtor or "credit recipient", may use the "money", so received, only for wage payments and other current expenditures. Moreover, his enterprise must be exclusively productive, i.e. it must be dedicated to produce goods and offer services and these must be of a proven quality.

Furthermore, the bank selected the recipient for its credit exactly because he manufactures consumer goods, which are usually bought within the next 3 months and are paid for in cash; i.e. consumer goods which, by way of a wholesaler go to the retail trade, both run by experienced people and whose customers are habituated to cash payments. *(Or to non-cash payments out of current deposit accounts built up by their cash receipts. - In this way, too, these notes stream shortly back to the issuer, although not as directly.)*

Only under all these conditions can that task be solved:

The credit user puts the notes into the wage packets of his workers. With these notes, these earners buy their lives' needs in the retail shops.

The bank did not only give such a credit to a single manufacturer of a certain branch of industry, but it provided, at the same time, very many other such credits, under the same conditions, to productive firms in other industries. All the workers buy for their wages is manufactured by those producers and distributed via wholesalers and retail traders, to whom the money of the workers then flows. The retailers use the money earned, in order to pay their bills with the wholesale dealers, and these use it, to pay their bills with the manufacturers *(directly or via their bank accounts, established with these banknotes!)*. In the meantime, the credit period has expired, for which the bank had given its notes on loans to the manufacturers. We assume that the bank had contracted the repayment in her kinds of notes only. The producing companies pay back their credits by returning the notes received to the bank. There these returned banknotes, also embodying a claim, are set off (balanced, cleared) against the original short-term debt certificate or IOU of the producer, which served as the basis for the loan of the banknotes to him. *(I do not think Rittershausen has expressed himself in his last sentence clearly enough. I have tried to put it more clearly but may not have succeeded, either. - Graphics can show the relationships much better. Compare my circulation charts, certainly not yet ideal ones. - Beckerath has also described this foundation, issue, acceptance, circulation, reflux and clearing process, numerous times, in a few sentences or paragraphs but such merely verbal descriptions still do not supply, often enough, a clear impression of what actually happens there. Otherwise the RBD dispute would not have gone on for so long, largely in vain, even among trained economists somewhat specializing on monetary issues!)* *(Compare on this my graphical explanations of the various circulation options and their natural covers or clearing processes. I have already digitized them. Probably they are also in my first and rough CD. If you are interested in this file, I can send it to you as an email attachment. It is in My Documents, FB files, file: FB JZ circulation charts and comes to 145 Kbs, zipped to 32 Kbs.)* / *The mere verbal description of this kind of circulation and clearing process is not easily understood by most people. For me, too, it took some time before I understood it. / Gold bugs, usually, ignore it because they prefer their simple gold redemption model, which saves them much in observation, reading and thought.*

But what can an issuer offer to the producers of commodities, in order to win them over to the proposition to acquire such embodied claims on loan?

The issuing bank offers certification (securitization), typification in small and round amounts, breaking up the large and uneven IOU of the employer into easily transferable pieces, and its own guaranty, by which the soundness of the so certified claims in small denominations becomes apparent. *(Elsewhere Rittershausen & Beckerath spoke also about this process as one of self-insurance of a bank of issue for its banknotes, soundly based and issued.)* All inhabitants of the country *(region or district!)* know that bank; but only a small part of the inhabitants knows the individual producing company *(in the US alone there were already ca. 10 million firms many years ago. By now there may be almost double as many)*. Only the claim document guaranteed by the bank is unquestionably good and can, therefore, pass easily from hand to hand. *(At least as the local currency of a local bank of issue. In monetary history there existed sometimes one bank of issue for merely 2000 to 20 000 inhabitants!). (Not indefinitely circulating. From issue to its reflux, usually within a short time, it amounts more to a kind of oscillation rather than permanent circulation. But the total circulation, under freedom, keeps being sufficiently supplied by these almost continuously issued and streaming-back banknotes. Just like light is continuously issued and destroyed in our environment, thus making vision and action possible for us. It does not "circulate", either. - The blood circulation is also often wrongly interpreted as an example. But fresh blood is continuously issued by our lungs only to stream back, shortly after it has delivered its oxygen, to be replaced by freshly oxygenated blood. Only the carrier liquid for these gases circulates - until its corpuscles, plasma etc. are also replaced. Blood carries, quite temporarily, oxygen and then, temporarily, carbon-bioxide and, thereby, it makes the biological and chemical energy exchanges possible by which we, our bodies and minds, do live. Naturally, no analogy is quite perfect.)*

One can also explain this subject otherwise: In commercial life of the past one used to pay with bills of exchange, which the creditor (supplier) drew upon his customers. He had sold commodities to them. Although they were not guaranteed *(except by those, who accepted them, signed them and passed them on as means of payment!)*, these bills had an easy circulation among experienced merchants, who well knew the companies involved and, therefore, they were accepted like money. *(And, shortly afterwards, mainly cleared against each other.)*

The transition from barter economy of the middle Ages, when workers were journeymen, who were fed at their masters' tables (*not only that, they often lived-in, at full board, i.e. received food and accommodation, probably also some work clothing*), to the modern factory system with foreign workers on wage rates raised a problem unsolvable for that bill circulation: Wages had to be paid. But wages could not be paid in bills, because the bills usually bore large and unsuitable amounts, and because the workers could not test the soundness of the drawn-upon companies. What did those early note-issuing banks do? To use the expression of an intelligent farmer, they exchanged usual large bills for chopped-up bills. They accepted from their customers their bills and returned to them typified and guaranteed "chopped" pieces to the same amount. Here we want to ignore interest or discount rate calculation. These chopped bills, these "banknotes", were usable also in small transactions and for wage payments, just like money.

(1.) Provided the law does not prescribe that the notes must be of a minimum denomination, which is already too high for most wage payments. One was then afraid that small notes would drive the rare metal coins out of circulation. U. v. Beckerath has written much on such laws, whose consequence was that the problem of paying wages could not be sufficiently solved under this legislation.

2.) The note-issuing banks usually had to obtain a licence from the State and the State imposed conditions upon his licences.

3.) One of the legally imposed conditions (and also one supported by popular opinion, even among most of the economists) was that the note holders were granted the right to demand, at any time, metallic redemption of the notes by the issuer. It was not recognized that they were already sufficiently covered through sound commercial bills (the Real Bills Doctrine) and that this cover consisted in a short-term debt foundation or clearing foundation, which assured a sufficient & continuous reflux, withdrawal or demand for the issued banknotes enough to keep them at par with their nominal value. Thus the supply of sound banknotes was threefold restricted, quite wrongly and unnecessarily. That had an enormous influence upon economic and ideological developments.

4.) One should here state as a fourth factor that all creditors were granted the legal and juridical right to demand from their debtors what was then and alone considered to be "real" or "cash" money, namely, rare metal coins, instead of merely clearing to the full nominal rare metal value of the banknotes. Although this "right" or legalized claim was, normally, not always practised, by insistence upon being paid in this way, instead of by set-off or clearing, it could and did lead to sudden cash crises, during which the cash demand was rapidly and severely enlarged, just when cash was already in short supply, because then and therefore the usually much larger non-cash payments sphere collapsed, for then more and more creditors insisted upon their right to demand cash payments in rare metal coins and there just were not enough of such coins in circulation to pay also all the debts formerly settled or cleared quite cashless, i.e., without them. The creditors were legally and juridically entitled to act in this way and the debtors were, likewise, obliged to pay in this cash, even though they were not sufficiently supplied with it. Thus currency famines resulted and their runs upon the note issuing banks. The mere fear of runs induced the banks to hoard more coins and to insist that the bank's debtors pay it in coins, especially when coins were already scarce.

Already at that time the turnovers through non-cash payments did, normally, far exceed those settled by cash payments. Thus, in these currency crises the need and demand for cash (in form of rare metal coins) was suddenly very much increased while non-cash payments were greatly reduced at the same time.

Moreover, the total quantity of rare metal coins could not be as rapidly increased as the sudden sharp demand for them, while sound notes and clearing certificates could, technically, be printed and offered in payments very rapidly, even within hours.

The same applies largely to the legal tender paper money notes now, normally, considered to be "cash".

*By means of at least these four factors, perhaps also some others, that I am not aware of, cash payments were ascribed a too large and dangerous role and free exchange was restricted, although, under fully free clearing, it could have been quite unrestrained, even if production, service supply ability and the readiness to consume and, thereby, the turnovers, **could** have been **suddenly increased tenfold**.*

*Thus, then and also now, one could and can **produce and offer** services, almost **without limits**, but one but one could **sell** them, under **these** conditions only to a **limited** extent. Free enterprise and free competition existed only for the goods production, the attempts to sell goods and services and to offer labour for wages but **not** for the issue and the reflux or withdrawal arrangements for sound money-notes and clearing certificates which are necessary for an unlimited exchange, i.e., **for a monetary or clearing demand corresponding to these goods, services and labor offers**.*

*The inherently unlimited clearing options were not yet fully understood and recognized, neither legally, nor juridically nor in business practice and, least of all, in the trade union ideology and its anti-industrial warfare applications. The trade unions always insisted upon wage payments in the "coin of the realm", as if the entrepreneurs possessed rich gold mines and a minting permit or would never have any difficulties in acquiring sufficient **coins of the realm or legal tender cash** (the forced and exclusive currency issued by the central bank). But, often, their potential employers had the same difficulties to turn their goods offers into coins of the realm, or legal tender government paper money (forced and exclusive currency) which the workers experienced when they wanted to convert their ability and willingness to work into coin of the realm.*

Compare the attempts, over centuries, to pay wages with "truck" or with goods warrants upon the products of the firm and also the legal prohibitions against all such attempts. A free development of alternative wage payment methods was not permitted, by law and jurisdiction. Even today most libertarians comprehend under monetary freedom only the free private coinage of rare metal coins and the issue of 100 % redeemable gold certificates, even when these certificates are issued on the Internet, which constitute a technology which by itself already suggests numerous clearing opportunities.

*While the **demand** for means of cash payments, either in coins or various notes, fluctuates in every year, every month and even every day, the note issuing banks, under the influence of the existing legislation, jurisdiction and business practice, as well as under the existing, dominant and likewise false or incomplete monetary theories, are not sufficient adaptable and elastic in the **supply** of their notes, clearing certificates and clearing credits. Nor is their reflux or the demand for them sufficiently organized and already inherent in their issues. According to the predominant opinions and legislation they must not be allowed to respond elastically, even when such a response is the declared official intention.*

Until today sound monetary theories like those of e.g. Prof. Heinrich Rittershausen, Ulrich von Beckerath and Dr. Walter Zander are still not sufficiently known and recognized. Therefore I consider this manuscript to be very important.)

Thus, the bank issued a new kind of money in place of the bills submitted to it for its discount. As one said, finally, it issued bills (scrip, today called banknotes), and discounted with them the bills of exchange it accepted.

The task was fulfilled: Money was being issued only by way of credit, so that in the end there is a claim, by which the issued money notes become extinguished (*the necessary "reflux" or the necessary immediate or short-term demand for the notes*); a cycle (temporary circulation or oscillation)

is achieved, so that, normally, it remains en-route for a number of days, weeks or months. By typification and insurance, an incentive is given to the borrower to undertake such business in the first place; and in the end, set-off provides for the removal of the issued claims. Another term was created at that time and for that process, namely "reflux" (Fullarton). In what does consist the demand which we initially found out to be the active factor giving a value to such a piece of paper, in itself worthless? The demand consists of the claim of the bank against the credit user to return a same amount in the same kind of notes.

Obviously, the strength of the demand for this security depends on the credit term granted to the customer as well as upon the energy of the debt collection measures, upon the severity of enforcement laws for debts valid in a country and on the quality of a debtor's morality. If the credit term is 10 years, and when juridical security and honesty among debtors prevails, then, foreseeably, no debtor will show a demand for this paper before, say, 9 years are over. Thus, for a period of 9 years, the debtor sees no necessity to obtain or exert a demand for such paper-notes in order to return them to the issuing bank. If we turn from the extreme of a very long, here a 10 year-period to the shorter period of one year, then, for a period of, probably, still 11 months, no

demand for this paper will prevail. The consequence of that would be that the current holders of such notes do not find anybody, for months, who is ready to accept them. At the time of the great economic crisis, in different countries, e.g. in Austria, Schleswig-Holstein and in Canada, such notes were actually issued by associations of unemployed, for terms of one year or even several years. The retail shop owners (*well, some of them, for a short while!*) even accepted them, experimentally. The wholesale dealers and manufacturers, however, were not ready to supply commodities in exchange for them, because no ready usability or acceptance options existed for these papers. Whoever produces and supplies commodities needs fast payments and cannot wait 11 months or even several years. But the acceptance of such papers inevitably meant such long waiting periods. (*That is one of the reasons for the large suppliers of consumer goods, namely the department stores [super-markets, chain stores, shop associations of streets and districts, which, in practice, are the centers for most consumer purchases, e.g. the many branches of Woolworth, Coles, Walmart, also the shopping palaces like the Westfield Shopping Centres, of which ca. 140 exist in Australia alone, usually also including Woolworth and Coles branches. Presently these shopping centres are confined to issuing and accepting "gift certificates" and "shop currencies", with the latter confined to consumer credits.] to themselves issue and accept goods warrants and service vouchers, typified and standardized like money, upon their own ready for sale goods and services.*

The "cover" that they do have to offer for such notes is more than sufficient. It consists neither of gold nor of silver coins but, instead, out of what the consumers need, every day.

Rittershausen, elsewhere, called these enormous stocks of consumer goods and this enormous consumer service capacity the real working capital of any country. Nevertheless, this working capital has so far not been freely and sufficiently liquidified by sound exchange media and clearing certificate issues, least of all by the owners of this enormous cover. If you wander through any large city or department store you become aware that this cover in form of millions of different goods and services, each of them offered in huge quantities, is really much larger than the largest single official or private gold hoard is or even larger than all of them are, in combination. Nevertheless, these potential sellers complain about lack of sales and their potential buyers complain of not having enough "money" to buy what they need or want! Objectively seen, this situation is really ridiculous and absurd, since the solution to this "problem" seems too obvious, once you do become aware of it.

But there is still the great difference between "what it seen and what is not seen", which Bastiat pointed out already about 1 1/2 centuries ago.

And all these consumer goods and services would be optimally priced out in gold or silver weight units, which should also be utilized in expressing the value of their goods and service certificates.

Such potential issuers are, obviously, very much interested in further and greater as well as in immediate and short-term turnovers and thus would issue their notes, vouchers, certificates, etc., if free to do so, mainly only in short-term credits, mostly for wage and salary payments, to employers and not for any medium- or long-term investments.

[Such investments can properly only be undertaken by the acceptors and savers of such private notes.]

So far and in Australia they were allowed to offer such goods warrants and service vouchers (called "shop currencies) only in consumer credits. And these must, presently and by law, be repaid, in State paper money, which is done mostly in installments.

However, such "shop currencies" could, in emergency situations, be also issued, very rapidly, for short-term loans, mainly for the continued payment of wages and salaries to employees who, otherwise, might have to be dismissed - in times of rising mass unemployment and numerous sales difficulties and bankruptcies, due to a deflationary situation or official credit restriction.

At least once this has already happened in Sydney, Australia, to the satisfaction of all those involved, even that of the trade unions, but due to the severe legal penalties for such actions, that the participants were exposed to, the case was hushed up. Another and more limited case of this happened many years ago in Wollongong, NSW. Since legal penalties might still be enforced for such self-help steps, I am disinclined to mention further details here.

Alas, neither the remaining hundred-thousands of unemployed nor the businessmen, nor the government officials nor the economists do, as a rule, show the least interest in such self-help options.).

If, now, we consider the credit period reduced to 2 months, which does already correspond more to the customary bank conditions, and if we assume that the credit business of the issuing bank

is operated day by day anew with very numerous companies of most diverse branches of industry, so that daily hundreds of claims become due and credits also continue to be given again and again, while all such due debts must be paid back in the same type of notes (*otherwise a small surcharge could be demanded. For this there exists an old tradition, which U. v. Beckerath pointed out. (This fine was called "Strafgroschen" in German)*), then a large and regular demand does obviously develop at the issuing bank:

Every day numerous retailers, many wholesalers, a lot of middlemen and entrepreneurs of all kinds will have to deliver such notes to the bank. The bank accepts all its notes at its counters

just as if it received national currency. As soon as the population gets accustomed to this condition, this money will have an easy circulation in that region, although it has neither compulsory acceptance at its nominal value in general circulation, nor is it valutary. It is merely accepted daily at the bank's counters. *(At the same time it is gladly accepted at par by numerous of the bank's debtors!)* As mentioned, the secret of this circulation is not the issuance of the money. Every fool could do that, if he is given the possibility. Rather, the secret of its continuing value preservation in *(general local)* circulation is the generation of regular demand for sufficient amounts of it, a certain size and mass-volume of the turnovers at the cashiers of the issuing centre. *(While I could try to issue claims to my libertarian microfiche, I would find only very few acceptors, people who are willing to exchange them into my microfiche because they want to read them and willing to accept them in payment for something that I want and which they want to sell. Thus I would be a quite unsuitable issuer and also one with quite insufficient reflux for my microfiche-goods-warrants. - Such an extreme instance shows very well the essential and above hinted-at requirements for sound note issues.)*

To make it fully clear: The size of the demand depends, as mentioned, upon the credit term's length and the prevailing debtor morale. If debtor morale is good, then it depends only on the credit period.

Let us think about the extreme case, a credit term reduced to one day or one hour. Obviously, the debtor, who must unconditionally pay within one hour, and whose enterprise would, otherwise, be punished with death by bankruptcy, will go to any lengths to find those notes in natura by hasty demand towards his business associates, one of the greatest urgency, in order to return them in time. A security document, which is as urgently in demand, can, obviously, not fall under a rate of 100 %. Even an agio or premium could be attained by it, thus could be rated at over 100 %.

On the other hand, coming back to those long-term notes of the unemployed: At a national interest rate of 5 %, one will probably not be able to evaluate a non-interest-bearing 10 year term paper, at present, with more than with 40 % of its nominal value. Such a paper would have thus a disagio (discount) of 60 %.

One-year notes, too, when not bearing interest, would probably still have a discount-rate. It cannot be computationally predicted at which credit period the notes will reach their par value, since the data required for that cannot be known in advance. The issuing bank is thus dependent

upon its experiences. *(Thus it will closely watch its exchange rate every day and cease issues when it falls below par.)*

One cannot require now that the public, which avails itself of the notes, puts blind trust into the skills of the bank. Rather, one must provide a measuring method to its customers, which emits a warning signal, when that saturation point of circulation is exceeded: This measuring instrument is the daily market rate notice for such notes, which must be published. Once this rate decreases, even if by only a fraction of one per cent, then the management of the bank knows that it must shorten credit terms or stop lending to insolvent customers who do not at all or only badly keep up with the credit terms agreed upon. By the rate falling, the public and the debtors of the bank obtain the opportunity to buy up the cheaper notes, spending other kinds of money for this, in order to pay back their bank debts below their nominal amounts *(reckoned in other currencies)*. Thus an incentive is created for the acquisition of these notes, as long, as there is still a chance to preserve the solvency of the bank at all. *(Small rate discounts will not matter much and will be only temporary, as long as the bank of issue has only discounted sound commercial and short term papers with its notes. Each additional reflux from its debtors will speed up the return of its rate to 100 %, especially when new issues are stopped, in the self-interest of the issuing bank and as a result of refusals by potential acceptors.)* In an extreme example, despite strong decline in the exchange rate of the Reichsmark, foreign debtors of German Reichsmark-credits and speculators, who believed in the security of the Reichsbank, bought up stocks of Reichsmark notes, during the years 1919 - 1922, probably to the amount of over 10 billion RM, expecting to be able to present them one day for the repayment of their debts to this bank and that at their restored nominal value.

The circulation of Scottish type "market rate money", as just described, is not the only method to successfully issue such money and to preserve its value. All cash counters with large public traffic can issue such money, if, otherwise it is suitably adapted to its particular conditions. Suitable are e.g. the pay offices of railway stations (freight traffic and railway tickets) of larger railway companies, a possibility which Friedrich List demonstrated successfully *(particularly see about this the brochure of Dr. Walter Zander. Filmed by me in German and English. Now, in English on www.reinventingmoney.com)*. Large goods- and department stores, chambers of commerce and all of their associated firms might resolve to accept such notes, as well as their own; and, in particular, large national tax and finance offices. All these institutions must circulate the money, which they

want to issue by paying for their purchases with it, paying wages and other current expenditures in this way (*or through short-term credits to the employers of their customers, only for wage and salary payments*), and they must be ready to accept it at their cashiers for delivery of their goods or services, just like any other money.

Since the tax offices have no or no visible services to sell, one can imagine for this case that they are dealers in tax receipts. Their money can then, at any time be paid to the tax offices for tax receipts. One calls this kind of money State paper money.

Between 1807 and 1923 there were, e.g. in Germany, always several kinds of State paper money. The notes of the Rentenbank, too, which were put into circulation after 1923, which had, likewise, no compulsory acceptance and circulated until 1938, can be regarded as State paper money. (*If I remember correctly, what I have read about it, legal tender for the notes of the Rentenbank was all too soon introduced. A history of all the laws on legal tender and the periods for which they applied is not available to me. Has it already been written? If in such a work the dates of the introduction of legal tender and of its repeal would be systematically confronted with the periods of inflation and of value standard stability, which would follow these enactments and repeals, something that could be shown in a simple table, then the close connection between inflation and legal tender would be very well and graphically demonstrated. As it is, hardly one in a thousand economic text books, all pretending to provide at least the fundamental knowledge of economics, shows any awareness of this close connection.*) However, here one should take note that, apart from such non-typical paper money with market rates, thus subjected to free rate formation, there is also still the real State paper money equipped with forced acceptance and a compulsory nominal value (legal tender paper money or forced currency), which must be counted among the species of fixed rate money. (*The official "fix" is in, but it does not solve any problems. Instead, it creates more problems than existed before.*)

One could object against the demand theory for market rate money that those notes were valuable not through the demand for them but by their metallic redemption. That would be correct if there were not numerous cases, where these notes kept their value even once their metallic redemption was repealed. There are even cases where no metallic redemption was ever promised, e.g. the notes of the German Rentenbank of 1923, which circulated at par value for more than 15 years without any trouble, even during the two severe crises of that time. Such facts cannot be made to agree with the theory of metallic redemption alone.

Seen economically, market rate money is clearing scrip, thus a paper which, by its guaranteed public faith, embodies a mobilized claim, which can be offered for clearing at any time. It does not require further or prior intervention of the banking organization or the personal appearance of the creditor standing behind the claim (*the term "personal" in this connection is not a happy choice. One might say, instead: "... which, by their holder and at any time ..."*).

Although this market rate money is pushed out, everywhere, in the present world epoch, at least touched by governmental totalitarianism, it does, nevertheless, play a very large role, even today, in numerous countries; and, because of its excellent characteristics, it has the power to perform at any time the whole of the physically embodied clearing transactions,

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i.e. that part of all payment and clearing transactions, which, because of its anonymity, cannot manage without an embodying document. *(I wish he had mentioned here a few practical examples of remaining usages. E.g. the market-rated acceptance of a foreign currency in frontier districts. The black market use of outlawed foreign currencies. All kinds of token money and emergency money issues. The cantine money or "fichas" of South American mines, that of the Krupp works, etc., etc. A complete catalog of them, with sufficient economic explanations, to the extent that such issues are recorded at all, would be highly instructive. - As it is, instances are spread all too much over all too many documents and books. The manuscript of Ulrich von Beckerath on emergency money issues "Notgeld" was burnt with his library in Nov. 1943.)*

This money has its term market rate money derived from the fact that, apart from the actual interest in it, because of a general (*sufficiently wide-spread!*) demand for it, nobody is legally forced to accept it and, especially not at a prescribed rate, except the issuer himself. While those who accept or receive fixed rate (legal tender) money below or above its par value are liable to punishment by the State, everyone must have the right to sell or buy market rate money below or above par value, since complete freedom of rate formation belongs to its essential nature. The trust in it is based precisely upon the free trade in this sort of money. And this, again is the expression of the natural demand for it, for buying with it retail goods in the shops, to pay railway freight costs (in case of railway money) or for paying taxes and tariffs.

While the fixed rate money (forced currency or legal tender paper money) represents a mobilized debt, which, by governmental order, was transformed into an asset/activa position, not in the hands of the claim holder, but, surprisingly, in the hands of the debtor himself (the government), market rate money always embodies a claim, thus an asset/activa position. Either it is a commercial proceeds claim from commodity sales sold by the supplier, or, originally, a tax claim of the government which is already due, or a railway freight claim, to keep with these main examples of the present time, including in all cases the typification and insurances aspects being included.

If market rate money, besides, is still redeemable in a precious metal, then these claims can be used not only for clearing, but they can also be made due for metallic redemption by presenting them to the issuer. If it is not thus redeemable, then it represents a "coupon" (a goods warrant, purchasing certificate, service voucher etc.), that the issuer or his debtors must accept for set-off or for delivery of goods (*or for services*) at their nominal value. Market rate money, seen in the private business economy of the single bank of issue constitutes a "quantity" which must be exactly measured and controlled. Seen from the perspective of political economics, it amounts to set-off without any inherent quantity limitations. Its importance lies in the fact that, like all successful clearing procedures, it can remain in circulation only during the set-off procedures or as a means for hoarding.

Market rated notes that are, somehow, put excessively into circulation, do almost immediately attain a discount (disagio), and thus they stream back to the only acceptor, who continues to accept them at 100 %, that is the issuer. Thereby they disappear from circulation. Consequently, a pushing up of the general price level in case of such over-issues is not possible with market rated money, whereas this is the rule with fixed rate (legal tender or forced currency) money. (*For under monetary freedom the prices, wages and other contracts are expressed in sound and freely chosen value standards and for them any market-rated and competing private monies are accepted, if at all, only at their market rate against the chosen value standard.*)

Thus the so expressed prices etc. cannot be inflated, not even through a much depreciated market-rated money, if it should occur.

Only the market-rated money itself could, theoretically, become much depreciated and the prices, etc., expressed in this depreciated money (not in any other and sound currency) could rise, with the one exception, the prices of the issuers. The issuers would still have to accept their own notes at par, no matter how much they are depreciated in general circulation. (If they were to increase their prices correspondingly, above their market prices, then they could then be charged with a rather obvious fraud.)

But the issuers of market-rated monies have themselves a great interest in avoiding a discount of their notes in general circulation.

For instance, if they could get their latest issues accepted only at a discount of 20 %, then they would have to be prepared to accept them, from each of their remaining debtors, and this immediately, at 100 %. That is certainly not in their own interest.

Likewise, in order not to suffer from discounts (disagios), the potential acceptors of private paper monies will not accept any of them that are, for one or the other reason or motive, suspected or distrusted by them. Alternatively, they will only accept them at a corresponding discount and then rapidly spend them again, if possible, towards the issuer or his debtors, i.e., those, who have to accept such notes still at 100 %. Thus depreciated notes, if they should happen, would rapidly disappear from circulation, if they ever got into it or, somehow, acquired a discount.

A stable, private and competitive money will stand mostly at par with its nominal value or very close to it, for that is in the interest of both, the issuers and the acceptors.

For such free market-rated and refusable monies the reverse of the popular version of Gresham's law will apply, namely, that the good monies will drive the bad ones out of circulation, when neither of them is given the legal tender or forced and exclusive currency power.

When the better money is driven out of circulation then this happens only because the worse one has been given the legal tender or fiat currency or forced currency power.

Under monetary freedom depreciated or suspect monies will either be refused by their potential acceptors or discounted, while sound money will generally be offered or demanded in payment.

However, if all prices, wages etc. must, by law, be expressed in legal tender paper money (forced currency, fiat money) then they will rise according to the depreciation of the legal tender money, if not immediately then relatively soon afterwards, depending upon the degree to which such deteriorated money is still being hoarded.). (Here one should perhaps add that prices expressed in sound value standards are not changed by using depreciated currencies to pay for them, when such currencies are still accepted for them at all. What does become changed then is their price expressed in reckoned in the depreciated currency. Thus, in reality, their real price is not driven up but their higher price in depreciated paper money merely indicates how much the purchasing power of the depreciated paper money has gone down, compared with currencies still using sound value standards. - The goods price has not gone up but the value of the means of payment has gone down, which is something quite different, no matter how often the two phenomena are mixed up with each other by those who do not discriminate sufficiently.)

(J.Z.: Rittershausen saved fragments of the prior page 16b, later 57, then 63. The following section is part of that; he characterized it as belonging to paragraph 8:

"Market rate money must be accepted at the acceptance rate (mostly its nominal value), only by its issuer. In general circulation it may stand below par and is freely traded, according to its rate. That is in contrast to fixed rate money (compulsory value money), which must be accepted at par by everyone, not only by its issuer; due to the penalties imposed. Thus a free trade with it and a public discount of it becomes impossible. Instead, if abused, fixed rate money can be repudiated, i.e. the owners of goods would decline to accept it as a means of payment for purchases and it would become worthless, by their declaration that they would not possess the desired commodities. *(For instance, I will never forget the impression of practically empty shop-display windows during the inflation, rationing and price control time. Well, they still showed e.g. small metallic tobacco pipe cleaners, some artificial flowers and a few other trivial and not price-controlled items. The really wanted consumer goods were kept out of sight and one had to privately negotiate for them, with means of exchange or barter goods that were acceptable to their sellers, at black or free market prices, that corresponded not only to their scarcity, resulting from such official policies, but also to the risks of such unofficial trades. At that time the police was almost totally corrupt and simply confiscated goods they saw and assumed or pretended had been acquired on the black market. And for food items one had often to travel for a long distance to a country side & to negotiate with people, obtaining it in barter for them, with the few possession that one could still spare and that were negotiable.)*

(J.Z.: from an earlier draft Rittershausen kept still another half page with the following text):

"to shop owners or cashiers with large public traffic (railway ticket offices, department stores etc..) for the payment of bills of third parties. These will further circulate it; since the holders of this money know or soon learn that they can use it for purchases in shops and department stores or at the ticket counters or at the freight offices. Or the issuing bank lends it to producers and commodity traders, who sold commodities, so that, in the end, the issued notes help to buy those commodities from the last seller, whose first sale was financed by their issue in the discount business. In a third case, governmental or communal institutions, which have large tax or rate incomes, can issue this kind of money. In these cases the taxed population is given the right to at least pay their taxes with it, although not the right to purchase with it any consumer goods. *(Unless they can buy them from people who have due taxes to pay.)*

The value of market rate money is always based on the fact that someone, i.e. a cash counter with a large turnover, does accept this money (acceptance foundation). Usually, acceptance takes place at its nominal value. But it can also take place at any value below or above it (acceptance rate). However, this rate must be kept continuously. The canteen money of the German armed forces, for example, during world war II was accepted at 10 times of its

nominal value in the canteens for the delivery of beer, cigarettes etc. and it also continued to circulate in the troop units with this full acceptance value (of, e.g. one Mark for a ten-Pfennig piece).

X continuation next page! Ad. Smith: ('If a prince ... ')

Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations, Great Books of the Western World edition, vol. 39, in chapter II "On Money ... ", page 142, on tax foundation money. The previous paragraph is also relevant!

"A prince who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind might thereby give a certain value to this paper money, even though the term of its final discharge and redemption should depend altogether upon the will of the prince. If the bank which issued this paper was careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued. ..."

The previous paragraph, here also on page 142, runs:

"The paper of each colony being received in the payment of the provincial taxes, for the full value for which it had been issued, it necessarily derived from this use some additional value over and above what it could have had from the real or supposed distance of the term of its final discharge and redemption. This additional value was greater or less, according as the quantity of paper issued was more or less above what could be employed in the payment of the taxes of the particular colony which issued it. It was in all the colonies very much above what could be employed in this manner."

(Alas, these passages in this famous work are still largely ignored by most economists, probably because Adam Smith had not fully integrated them in his monetary theory. But he was a good enough observer to at least mention such facts, even if they did not suffice to change his main opinions and theses on money.)

§ 9. Clearing (set-off, balancing, skontration)

Money's principal feature in economy is clearing. This follows from the initial discussion of the payment and clearing function of money (§ 1). However, clearing (*at the first and basic stage*) presupposes personal acquaintance of those involved and (*almost!*) absolute confidence in the claims presented. Its further development also requires a certain degree of organization, so that clearing is not directly applicable in certain cases. (*Free clearing, mediated through clearing houses or other clearing institutions can settle much more than merely the debts between close business associates who do personally know each other. It can also settle **all** the sound debts in a whole country and even world-wide, among people who do not personally know each other at all and, most likely, will never meet each other. This free clearing can take place in several stages, on several levels and can embrace ever larger districts and payment and clearing communities. What he describes in the following paragraph as a special case can become the standard case.*)

In such cases one helps oneself by certifying the claim, that one wants to clear, in a document whose recognition requires neither personal acquaintance, nor confidence, nor still another organization. (*E.g. for the American practices of "clearinghouse certificates" the personal acquaintance, trust and organization played a considerable role. It will also play a role for debtors who cannot pay in conventional cash or local currency notes or State paper money but, as producers or suppliers of services remain very ready and capable. These people or firms could then pay with notes or certificates, in money denominations, upon their own products and services, and this with a discount upon these notes which is satisfactory for their creditors and for themselves bearable. To make it easier for the so satisfied creditor to pass on these typified and standardized private notes, until they are, finally, used by some debtor to pay with them the issuer for his goods and services, a special organization is needed, like a local note-issuing bank or clearing house. The customers of these mediating institutions need not know each other but these centers will know all their customers, sufficiently.*)

A further means to help oneself in such cases is the handing-over of self worth money, which carries its natural value in itself, or of papers which, by government command, had been given a nominal value realizable everywhere (*in a country, not world-wide!*), although, by themselves, they do not have the characteristics of genuine claims.

One must not adopt the error, like an older monetary theory did, to regard the kinds of money treated so far as the primary money, the metallic money in form of pieces or certificates

or notes, which stand opposite to clearing. Rather, all kinds of money serve the purpose of clearing: The self worth money and the fixed rate money, since clearable claims result by their delivery; the market-rated money, since, by the claim confirmed in it, clearing is offered and accomplished; redemption money, since entitlements to redemption confirmed in it and expressed in monetary units, are being made available for clearing.

It remains to briefly discuss whether the diverse forms of market rate money are always merely means of clearing: The Scottish banknotes can be regarded as clearing notes. According to English-American law they are kind of a bill of exchange. The signature of the issuing bank includes an acceptance, like it is well known in bills of exchange. Issuance is so arranged, that granted turnover credits are short term, so that, continuously receivables are due to the bank from their customers.

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The notes themselves, as far as they are in circulation, contain claims of the holders against the bank. Their issuance is managed in such a way that, continuously and approximately just as many maturities occur of the bank against its customers as there are maturities of customers against the bank.

Consequently, set-off (clearing or balancing) is possible at any time for the mutually existing claims of opposite direction and equal size and maturity.

Clearing must take place at par, because the bank is obligated to accept its own notes at nominal value, just as the bill (of exchange) debtors have to pay the nominal value to the bank. *(That applies when opposite claims fall due at the same time. Otherwise clearing is possible, too, by agreement, with corresponding discounts.)*

In detail there is a rather long chain of clearing steps:

The manufacturer owes his workers wages. His recipients owe him payment of invoices for sold commodities. The manufacturer mobilizes these claims on his recipients by drawing bills

and having them discounted by the issuing bank, thus exchanging them, so to speak, for smaller, typified and standardized or "chopped-up bills of exchange" in money denominations. *(Rittershausen did not squeeze all these details into his expression, perhaps to keep it more simple. - In this way and temporarily, during the running of the bill, its transferability is increased: Numerous suitable bills circulate instead of it and are, largely, used to settle it by means of being used to pay for it. Not necessarily the same small bills but equivalent bills, issued in the continuous discounting of "real bills". - These banknotes, in our times, also in small enough denominations, can also be used as means of payment to pay wages and salary with. Directly or via corresponding bank accounts. - Before they were often, by law, permitted only in as high denominations that they could circulate only among merchants.)*

By the manufacturer paying owed wages in banknotes to his workers, clearing of two opposing claims of equal size takes place. By the workers' buying goods in the shops, the shop owners acquire claims of equal size. They give the shop owner bank notes for clearing, which represent claims against the bank, and, thus, again, they offset or clear according to BGB § 387.

The shopkeeper owes the wholesaler for his invoice. He presents such banknotes and, thus, is setting off the claim contained in them for a second time. The manufacturer has to claim upon his invoice on the wholesaler, for goods sold to him. The wholesaler possesses the banknotes, which represents claims on the bank. Once again, both are setting off.

By the day of the bill's maturity the bank has a claim on the manufacturer; while the latter, having earned banknotes in the meantime, has a claim against the bank: both are setting off again according to § 387.

In each case and, according to law, both claims have expired at the moment of clearing. In this way all payments done with the Scottish type of banknotes can be understood as set-offs (or clearing transactions).

The same applies to the cycle of State paper money, which circulates under a free rate *(and with voluntary acceptance in general circulation)*. The government has due claims on taxes not yet paid. It can or will not wait until these

claims are paid in by cash. So it embodies and typifies the claims on its taxpayers in such State paper money. Because of the size of this debt and the security of its payment no special guaranty is required. The suppliers and employees of the government have claims on it deriving from their supplies and services. The government, through its organs, hands those embodied fiscal claims over and both are setting off. The government suppliers and public servants do probably continue to buy in the retail shops. The shopkeeper thereby earns claims on the government. They hand over these claims of the government on its taxpayers, in this embodied form and are setting off. These businessmen and their subcontractors have to pay taxes. The government is demanding these taxes, and they are handing the State paper money over. One clears, once again.

Thus, by set-off, the claims of the government on the taxpayers are deleted, just as well as the claims of the State employees and suppliers against the government, are deleted through clearing, for, in the meantime, the State paper money (tax foundation money), had come into the hands of the taxpayers.

Probably these examples are sufficient to show that all payments effected by self worth money, redemption money, fixed rate and market rated money can be understood as set-off processes in the sense of § 387 BGB. The same applies to the direct and organized clearing processes treated in § 1,

- to the transfers (bank or post office giro transfers),
- check transactions,
- retrogressive transfers (*returned IOUs etc.?*),
- the drawing, discounting and settlement of bills of exchange, (sound commercial ones or "real bills" only)
- the operation of clearing houses, which undertake in particular skontrations (the clearing) of bank transfers, retrogressive transfers, bills of exchange, cheques and other mutual obligations within a certain district.

This direct clearing accomplishes between 80 and 97 % of all payment processes in the modern so called developed states, while the small remainder falls upon settlements done through the physical embodiments specified above.

(J.Z.: a handwritten note of Rittershausen on a separate slip):

"Introd. Theory of the contingent claim (P.10, 11) in conclusion on clearing.

Valut. character of set-off, (P. 12) already dealt with on P 12. (treated.)"

(some separate handwritten notes of Rittershausen):

"new to insert: 9.6.51.

1. Insert here money as most liquid commodity. Any good a quantum of functional value = containing liquidity, money a maximum quantity.

2. Table according to degrees of liquidity. (J.Z.: already contained, on P.....?)

3. Distinction of

- a. Precious metal money - combination of highest liquidity with many other goods characteristics
- b. redemption money – "assignment" upon it (deposit receipt).
- c. Fixed rate money – governmental-artificial good of highest liquidity, artificial goods!
- d. market rated (optional, refusible, discountable) money as a form of set-off, its kinds.
- e. other liquidity: stock exchange papers, their legal usability for Lombard credits.

4. No "antipode" of money and goods.

5. Hoarding and degrees of hoarding, security. Satisfaction of needs. Secure safekeeping.

6. Me: Teachings of the opposites (in reality pseudo problem: Veit page 269.) of nominalism and metalism to be fought (this Knapp Theor.), since there is no antagonism; money belongs thus among the kinds of goods, it is not excluded from them. With this we arrive at a uniform theory, not 2 of them! The price theory does govern money as well!

- a. self worth and fixed rate money as liquidity maxims
- b. set-off as neutral method of money saving = saving goods!!
- c. market rated money subjected to price formation.

7. Money not only valuable by derivation, i.e. by the goods acquired with it, but directly, by its function as max. liquidity, as satisfaction of this genuine and most urgent need, + often max. security = satisfaction of security needs.

8. Money as a vehicle in front of the door: ready to be driven. Schopenhauer quotation Veit page 267.

9. Money most important substitute good!

10. Neutrality: Problem not in the sense that money quantity and goods quantity always equal! This equation does not exist.

11. New goods definition: Carrier of liquidity!

(Under present conditions outlawed as such and only potential carrier, dependent upon monetary despotism finally being abolished!)

12. Gold = more international liquidity = extreme liquidity + security, therefore valuable, not because of its commodity character.

13. Also the Gold value - term "commodity money"? - artificial (Veit? page 270), as with fixed-rate money, through sociologically conditioned readiness of the peoples to accept it? + purchase (price) of the note-issuing banks (illegible: ff? - J.Z.). But international convention of acceptance

a. is an irreplaceable plus! Unshaken!

b. A further plus of gold: it satisfies security needs at the same time!

c. Further advantage: Veit page 271: of gold: Gold arises (*is accumulated*) only through consumption renouncement (that took place before, "ex ante"), so that there is an equilibrium between money stream and goods stream (even Veit!). On the other hand, fixed rate money can disturb the equilibrium (ex-post-renunciation of consumption renouncement resulting from price increases). This is the only substantial difference.

14. Me: no, still more differences, since there is still redemption money, clearing ff., but Veit is right:

There is no diametric antagonism between money and goods.

(J.Z.: a further handwritten note, undated.):

"Me new part in § 2, end:

(J.Z.: in previous structure. Here current chapter 2, § 8, market rated money, seems to be meant.)

according to which the concept of money is not only extended to clearing, but to all goods, since money is fully and completely a commodity, merely one of high liquidity. Extend to: Liquidity as money!

All methods to make oneself or someone else more liquid are money or replace money, e.g. skontraction (setting off, clearing, balancing) of debts (makes more liquid), clearing with prospect

for future new clearing (lets me dispose of goods belonging to others), stock exchanges (transform their goods to daily money), etc.." *(Even a gold coin is, essentially, merely a clearing "certificate", although a very expensive one. Used merely as a value standard in free clearing processes it could turn over much more, without being always present in each clearing transaction, except as an abstract but well known and readily usable value standard, and this without being available for "redemption" at the issuer of the gold-weight-value clearing certificates or being promised by him.*

In other words, in this form, any gold coin that exists somewhere upon a free market and is there used for some transactions, can, at the same time, help to turn over many more goods and services, merely as a helpful and clear as well as relatively stable value standard, than a mere physical gold coin could, which is given in payment from hand to hand.

*As a legally prescribed exclusive means of payment the gold coin does even **limit** the free exchange of goods and services, through the limited quantity of gold coins available for circulation and through their limited circulation speed.*

Only as a means of payment that is optional for a debtor does it not lead to any restriction of monetary transactions, of the kind which it can and too often does cause when it is legally or juridically or by business custom turned into a generally obligatory means of payment.

The same applies to the scarce and exclusive forced paper currency of the State, in many instances, not only during deflations but also during inflations, e.g. in stagflations.

Any central bank may require a considerable period before it even notices that its exchange media supply is insufficient and then another period before it at least somewhat responds to this shortage. By then this shortage may already have largely disappeared and its response may be too late or too large or too little. But what can it do when the proper measuring sticks, the free market rate for its paper and voluntary acceptance have been outlawed? The State's exclusive and forced paper money has not only handicapped itself - but everybody else in the country.)

Chapter 3

§ 10. Two opposite theories of the State

(J.Z.: Original title: "Chapter 3: The relationship of money to the State, to the payment community and their individual members." - J.Z.)

We must disregard here from metal money; this is valuable in itself and of full value. It always existed and can exist without a primary relationship to the State. Even if its coinage is undertaken by government authorities, and may show a state's heraldic figure, such governmentally minted coins would, nevertheless, not be more valuable by this State influence or be judged otherwise than privately-minted coins of the same fineness. In principle, that applies also, when the State declares certain coins to be valutary, although here, a certain influence of the State cannot be ignored; one which will occupy us later. Thus, let us concentrate for now on the two other kinds of money, namely: 1.) the fixed rate money (compulsory value and acceptance or forced currency or legal tender type) and 2.) the market rate money. We do assert that the first does not only permit the shifting of a possible national budget deficit onto the shoulders of the citizens, but even more so, it is the regular and enforced means of passing on this debt; and this is precisely the motive of certain types of government for making extensive use of it in their economic policies. That abuse is impossible with self worth money and, especially, with market rate money, although this latter is, likewise, a paper money. These latter two kinds of money (the self-worth and the market-rated kind) are in the sphere of a constitutional state, because they do not allow the government to burden the citizens with its deficit. Therefore, in history, one finds self worth money and market rate money predominantly in the periods of constitutional states and limited monarchies, thus in Germany especially from 1816 to 1910, and fixed rate money in the periods of the total State and of those economic policies, which make extensive use of coercion, thus prior to 1815 and since 1914, and more so since 1931.

The two paper money forms distinguished by us: fixed rate money (forced currency, legal tender paper money) and the market rate money, do, lastly correspond to the two kinds of theories of the State (de Viti de Marco):

The theory of a monopolistic or "omnipotent" and that of a cooperative (associationist, societal) State. In the first theory (called case A in the following), the citizen, with all his wealth serves the State. Thus, ultimately, his property cannot be distinguished from government property. In the societal (or cooperative) theory (case B) government serves the citizen. It has no right to "seize" private property, it is the citizen's organizational instrument

in certain community questions, which are, by the way, accepted by both systems of government (1).

The decisive importance of the constitution of the State and of the economy for the monetary system becomes immediately clear when one examines the "state of emergency", not the "normal" or "ideal" course of events. Just like the state of emergency in public affairs has already proved, for a long time, to be crucial for the evaluation of the form of a State, so, likewise, in financial and currency affairs, it is not the normal balanced national budget, but the actual final deficit of the State's budget, which, in its own way, has an importance, not recognized so far, for the monetary economic constitution, if one may use this word – in our still unsettled terminology –. The value standard and the right to private property stand closely connected to the government's deficit. The monopolistic and the cooperative State agree in that, upon the occurrence of higher expenditures, they will at first increase their ordinary revenues, particularly taxes. This interference with private property is permitted in both systems. When tax sources are considered to be exhausted, then both State forms will resort to public credit. Only when this public credit is also exhausted, does the "true" deficit occur, which we mean.

Here the paths separate: An omnipotent government (2) converts its deficits and debt documents into money, by ordering its citizens to accept such securities (*a misleading term, since really "insecurities" are involved: Additionally issued fiat or legal tender money or forced currency, without a sound foundation, with only a "let's pretend" "cover" and compulsory value, and quite insufficient "reflux" or demand for it*) as full payment, e.g. like precious metal coins, even if they are depreciated (mixed with base metal) below par value. By that method, the omnipotent government can achieve wealth transfers, as the numerous paper money crises have shown.

(1) See the contrast between Jefferson and Hamilton with the emergence of the American constitution. Among us e.g. the cooperative (societal) direction was represented by Althusius (Politica Methodica Digesta of Johannes Althusius [Althaus], reprinted etc., with an introduction by Professor Carl Joachim-Friedrich, Ph.D., Harvard Political Classics, volume II, Cambridge, USA, 1932, Fol. IXXXIV, XXXIX. The variety and greatness of the theories of the community-State of A., one without sovereignty cannot be fully described in one sentence). Some other representatives of that theory are: Frh. v. Stein, Hardenberg, Boyen, W. v. Humboldt, v. Gierke, G. Jellinek, among others, as is well-known.

(2) Here it is unimportant whether it establishes a governmental or a private central bank or not.

It can thus interfere with the private property of its citizens, largely unnoticed, and live on that. With invisible hands, it grabs income and wealth from its subjects. It does so by shifting the price relations through its increased demand for goods, there by extracting goods and thus worsening supply, because it does not increase the goods supply by adding any. Even the government cannot produce something from nothing. The result is thus the same: a taxation of its subjects. But this taxation is achieved in a different way. This other way is not by any means the better one, however, it is probably the easiest as well as the most unjust of all kinds of State interventions. Its power, whether it uses it for warfare-, control- or budget-purposes, has or recognizes no limit before private property. Such valutory notes with compulsory acceptance at nominal value are not credit papers. Their issuer is only by his name, not in the scientific sense, a credit institution. Their acceptors (*under compulsion and money monopoly or exclusive currency conditions!*) is not a credit provider. There is no credit "creation". This valutory paper money constitutes absolute values of a special kind, created by government command. By issuing it, the issuing centre does not contract a debt. For the (*seemingly!*) omnipotent government has a power, which no private person ever has: It can (*seems to be able!*) transform debts into asset values, liabilities in activa (assets) (namely legal tender means of payment) (*such "active" lead soon to the real, although hidden State bankruptcy!*), not, as with the public loans into values for the loan provider (*but, indirectly, into extra burdens for all tax-payers!*), but for the State, so far a debtor. With this valutory money (Fiat money), it can make itself liquid, thus it can spend "money", when nobody is any longer prepared to lend anything to it, i.e., when the (*so-called and misnamed!*) national credit is exhausted. (1) (*Spending e.g. "requisitioning certificates" and forged coins or notes or forged cheques, does not really amount to "spending". No more so does the imposition of inferior but forced currency upon all creditors amount to full payment in government "spending" or expenditures.*)

These notions and ideas have long been well known didactic plays: among the theories of note-issuing banks as the theory of the "strong central bank" (2), and in the science of finance, e.g. with Lorenz von Stein (3) and De Viti de Marco (4), as the theory of the „real paper money“.

(1) Whether a bank is placed as an intermediary between the Treasury and the public or not is not a substantial question, but merely one of psychological tactics. Whether the procedure is dressed up as an "open market policy", which, nowadays means something completely different, is likewise without any importance. For all too long the scientific discussion dealt with superficial matters (open market policy, cover of bills of exchange), so that, finally and most importantly the question has to be put regarding the last and decisive phenomena and principles that are involved here.

(2) Compare Plenge, Riste, Sven Helander et al.

(3) Lorenz v. Stein, Lehrbuch der Finanzwissenschaft (textbook of the science of finance, part II, III rd section, Leipzig 1886.

(4) Grundlehren der Finanzwissenschaft (Basic theories of the science of finance.), 1932, chapter 31.

A cooperative (partnership) government (case B) does not possess this power. Its options possibilities on the credit markets do not exceed those of a private citizen. It does not have a "gold mine" under the cellars of its bank, as compulsory acceptance was called; it may not intervene with private property otherwise than by means of the tax legislation. It, too, can balance its budget, namely by tax increases, however severe they may have to be. It can make use of public credits; it can draw-in its deposits, it can even "anticipate" fiscal claims, those due, but not yet received (by State paper money with a market rate evaluation, the so-called "tax anticipation notes", and "treasury notes" in financial history). But when it issues too many of such securities, no matter whether these are bonds or paper money, then their market rate will fall and thus the issuance finally ends by "repudiation", by a severe discount (sharp rate decrease) and refusals to accept them and deliver goods for them. Already by its definition, it is barred from the means of monetary policy and the "tacit" interference with the property of the citizens. The sovereign community of "citizens", of "oath comrades" (confederates), "Federal States", of the "elite" or whatever influential people it might have, would exclude, by their constitution, the other forms of interferences and would wield their self-government power.

Although that certainly may mean much, one should not forget that even the authoritarian State cannot consume more than the incomes and properties of its subjects. Altogether, the one financing method cannot raise more or be stronger than the other. Instead, the budget balancing process is just more voluntary, public and honest in those forms of States that are at first thought to be weaker, for the tax legislation is public. A cooperative (societal or partnership) government, imagined to be weak, does avoid, together with the "monetary policy" every serious paper money crisis and every governmental "inflation". ("Private" inflations of any considerable extent do not exist in history. Practically all inflations were caused by government budget

deficits.) *(These deficits can only be a **motive** to engage in an inflation, for those, who possess the legalized power to do so, but not the **cause**. Somebody has to give the order to put the note printing presses excessively into production and even then the excessive issue of the additionally printed notes can lead to inflation only under legal tender and the note issue monopoly. For this reason and during the great German inflation someone (Landsberg? See the letters of Ulrich von Beckerath on this.) proposed a "gallows currency". At the first sign of an inflation those responsible for it should be hanged.)*

Under the statist monetary and financial despotism of case A the selection of the best kinds of money for circulation is thus not an economic question, which is e.g. decided by private judgments which kinds of money are deemed to be most practical,

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but it is a political question, one of power and of the distribution of power in a State, and which is to be judged by the State's constitution and by the state's position about budget deficits.

To state it once again: If the State (case B) has to cope itself with its deficit, as in a constitutional system, then it has 3 options for this: The reduction of its expenditures, the increase of taxes and making use of government credit.

With the two latter measures it interferes with the incomes and wealth of its subjects, but does so in an open and legal way.

The omnipotent government (case A), however, has, apart from these two measures, still another means at its disposal, which can supply additional income to it: it can compulsorily convert the remaining deficit of the national budget into money, it can turn liabilities in assets, thus eliminating its deficit, seemingly without extra taxation and without disturbing its adherents by such visible burdens. This political moment plays a large role, because the seemingly omnipotent State is weak and anxious towards those who support it. Therefore, it does not wish to touch them with heavier taxation. By this thought construction "money" is "created", goods are extracted, prices are shifted; and all these are all exactly the same effects that a new tax or the increase of an old tax would cause. Merely the compression of demand from the side of the subjects is missing, that of the government replacing it. On the one hand, this small difference makes the characterized measure the most easy one, on the other hand, however, and, at the same time, it makes it the worst.

Between the constitutional (market rate-) and totalitarian (fixed rate money, forced currency) money system no mixed forms are possible, there is only an either-or choice. A commodity or a security document cannot have at the same time a price determined by government and a free price and cannot be traded, at the same time, at both different prices. *(Actually, some forms of legal tender money and some forms of optional and market-rated money did always coexist to some extent, at least on the parallel black or free markets. The same goods and services had and have different prices on the open and on the outlawed or very restricted markets).* When government does not enforce its decision, then traffic decides for only one form. *(Optional kinds of money and clearing. These would be diverse but not any more varied than the market, trading or circulation can bear. People would accept only as many different means of payment and clearing as they can readily cope with. The small convenience of a uniform means of payment cannot make up for the wrongs and damages caused by the imposed uniformity of a centrally issued monopoly currency.). (When governments do not outlaw the better monies then traders decide upon the better forms. In the properly understood Gresham's Law the competitive and better monies drive out the inferior and worst money, when it is not legally provided with the legal tender power. This happens by the free choice of the people who are exchanging with each other. - Only legal tender money can drive out or drive underground the better monies - for all too long.)*

§ 11. Evaluation of the kinds of money from the point of view of the State

The interrelation between the two types of government and of money is, indeed, not simply that, for example, the omnipotent State is always and alone associated with fixed rate money and cooperative governments with market rate money. This is not possible already because according to the older (past) theory it seemed that the market rate money could only be an accessory one, an appendage to metallic money, a case that, probably, does not always fit the modern cooperative democratic States. G. F. Knapp did quite rightly point out that it is not at all permissible to simply lump all the different kinds of money together and to confront them, as an undifferentiated mass with the goods on the market. The State gave, by law, quite different characters to the particular kinds of money on their separate territories of earth's surface, and the task consists in studying them *(I think it to be much more important to study the non-statist forms of money.)*

As mentioned before, firstly we call that kind of money to be valutary, which government declares to be final (absolving or valid), when it has to make payments. Thus self worth money can be valutary, possibly, e.g. in the form of gold pieces. Also notes or other kinds of paper money can individually or together be valutary. All non-valutary kinds of money we call accessory ones *(they are optional, refusable, discountable, competing, contractable and market-*

rated.) In Germany, from ... 1929 to ... 1931, gold coins and Reichsnotes were both valutary in Germany. *(Elsewhere he objected against this double definition of "the" value standard. However, the government got away with this. Rittershausen may have been the only economist who protested against this.)* Until December 31st, 1909, only gold coins were. Since June 20th, 1948, only DM notes of the German Central Bank (Bank Deutscher Laender) are valutary. Until Dec. 31st, 1909), Reichsbanknotes, the notes of the four private issuing banks, the Reich treasury notes and the Reich coins made of silver, nickel and copper as well as the Thaler (since 1876), were accessory. Since January 1st, 1910, the number of accessory kinds of money was decreased by one, namely the Reichsbanksnotes. Here, we will not discuss the inflation, which ended in 1923. Afterwards, the notes of the 4 private issuing banks (1937), the Rentenbank notes and the Reich coins made out of silver, nickel and copper were accessory. This condition remained until 1948. Since 1948, only the notes below 1 DM, as well as nickel and copper coins, given for change, are accessory. *(Imagine the chicanery that would occur if you could legally force a hated creditor to accept thousands of currency units in small coins!)* Book money (non-cash payments), since its introduction, was always accessory and still is

so today.

Thus, the gold standard will be found where cash (physical) gold money has a valutary position, and a paper value standard there, where cash paper money of a certain form, e.g. banknotes, are in a valutary position. *(In this simplified and contrasting statement Rittershausen did not sufficiently indicate the possibility of the **gold-clearing- or gold-accounting standard**, in which physical gold may not be present at all in a particular exchange, as a means of exchange but is, nevertheless used as a sufficiently known and readily accepted or contracted-for value standard, against which the means of payment, that **are** used, are measured. Moreover, and importantly, then the prices of goods, services, wages, rents etc. are also expressed in gold weight units, although they may only occasionally or rarely be paid in corresponding gold coins. Precisely because this form of gold standard is still so little appreciated in economic text books while, by now, there are again many defenders of gold coins and redeemable gold certificate, one should utilize every opportunity to point out this alternative instead of glossing it over just to achieve a strong contrast between the conventional gold standard currency and the imposed paper value standard currency.)* In the case of gold money, the concept of valutary money does not absolutely depend upon the behavior of government, since gold money has an exceptional position because of the general and continuing demand for it, one caused by mass-psychology. For all kinds of non-full-value metal money and for paper money, however, the concept of valutary money does depend on the behavior (legislation and jurisdiction) of the State. However, here the

cooperative State that is represented by the community of the citizens can limit its activity insofar as it only needs to formalize a customary law established by their continuous actions. *(It might, e.g., declare and enact that the usual local currency has legal tender power for all local transactions, as long as it circulates at par and nothing to the contrary has been contracted. Then it would have legal and juridical debt-dissolving power, in a form that is hardly objectionable or dangerous. {U. v. Beckerath})*

A completely different classification of the kinds of money results, if one examines whether there is compulsory acceptance, and thus, whether payments are final (debt dissolving), which are not made by the State to the citizens, that is e.g. in payments among private persons. Further to be dealt with is the case of payments to the State.

I. For payments among private persons, acceptance can be left completely to the discretion of the recipient (*): E.g. the optional acceptance for the Rentenbank-notes until (*) *(or to contracts between payer and payee. - To avoid chicanery, the customary local currency, while at par, should be considered as legal tender, as long as no other means of payment was contracted for.)*

II. Or a definite but limited compulsory acceptance takes place;

1. This compulsion applies only to payments of small amounts, e.g. in copper coins up to the amount of DM 1.-, for those in silver coins up to the amount of M 20.-. This quantitative restriction for such payment results from the concept of "small change-money".

2. The compulsion is general and unlimited: All potential payees must accept this money: This is the concept of "Courantgeld" (Coin of the realm. Legal tender money. Forced currency. Fiat money.). Until 1910, pieces of gold were the only Courantgeld. Today notes of the German Central Bank (then Bank Deutscher Länder, tr.) have this status. Both, the gold money of that time was and today's notes of the German Central Bank are, cash, Courantgeld and valutory money (legal tender or forced currency). Here, the concept of cash

has changed: Formerly the quality of "cash money" was conceded only to the then given full value metal coins. But following today's language use, the paper money notes of German Central Bank are also given that status.

A still a further classification differentiates between definite and provisional kinds of money. They are provisional, when they are redeemable for a definite kind of money, i.e. for such, which is regarded as final (debt dissolving) according to the legal order. Until August 3rd, 1914, the banknotes (since Jan. 1st, 1910) were valutory, but still redeemable. They were thus definite and provisional at the same time.

Finally, and again arranged according to a completely different criterion, there are kinds of money that are below par value (discounted, with a disagio), full value (at par with their nominal value), and above par value, (money with an agio): There are kinds of money, whose material realizes a lower price in its sale or exchange than its nominal value. They are monies standing below value; e.g. all kinds of paper money, further, all European silver money, likewise nickel and copper coins. As opposed to this, our gold coins had full value until at least Aug. 3rd, 1914: When selling them as commodities, one received as a price just as many value units as was their legal payment value. Monies standing above their par-value obtain a higher price in selling them as commodities than corresponds to their legal value. That is the case today (*year?*) e.g. with American 10 \$-coins, which earn today about 40 \$, if one sells them outside the borders of the United States, since within the U.S., such business is forbidden. (*I do not know when this prohibition was repealed. 1975?*) One says about those kinds of money standing below value: They have a disagio (discount, tr.); about those of full value: They stand at par, their parity is 100; about those above value one says: They have an agio (premium, tr.). Inland, the last type disappears from circulation, because the holders can sell it, profitably, as material. Contrary to this, the below par-value kinds of money remain very easily and persistently in circulation. (*As long as they are legal tender, i.e., they have the bad character of compulsory acceptance and of forced value.*) Thus officials regard them favorably, since the population cannot use them otherwise than for payment purposes.

Having so far distinguished between valutory and accessory kinds of money, the first were characterized by general compulsory acceptance for everyone and the latter by the lack of this general acceptance obligation.

The general compulsory acceptance applies also to the issuer of valutory paper money. For to the extent that he issues it, he contracts claims towards himself, which his debtors can and have to use to pay their debts to him. The compulsion to general acceptance is thus really general. It refers especially also to all of the State's tax offices.

However, accessory money is not, without exception, characterized by the absence of all compulsory acceptance: The issuer himself must accept his own money without limitations (*i.e. always at par!*). This exception is called the cash rate ('cash price', 'cash quotation', the German "Kassenkurs"). (*The explicitly stated value at which the issuer obliges himself to accept the notes he issued himself. - Obviously, everyone has to accept his own and due IOUs in full as a means of payment against himself. Paper money issues, apart from those with delayed metallic redemption promises, are always immediately due, i.e., their issuers must accept them immediately at par.*) All accessory money has thus at least a cash rate, either that of a bank counter, should a bank have issued it, or that of a treasury, should it have issued it. Only with regard to this cash rate (*This 100 % acceptance - as if it were cash in the meaning of full value metal coins!*) is accessory money of some value at all, as we will see later. (*It has then the "full readiness to accept foundation". - This obligation applies only to its issuer and, at most, by contract, to his debtors.*) (Unfortunately, the German term "Kassenkurs" had also a different meaning, probably one that was much more widely used than the term "Kassenkurs" as used here by Rittershausen Then the German tax offices were prepared to accept tax payments in all kinds of German and foreign currencies. They were satisfied if only the tax payers were willing to pay them, in almost any means of payment. [Well, payment in natura was largely refused in modern times.] But all these diverse currencies, that were **not** issued by **themselves** were accepted only at their currently and in advance published rate, namely their "Kassenkurs" or their stated foreign exchange rate. / Only sometimes, when the own notes had suffered a discount in **general** circulation, was still another step taken: Payments in **other** currencies were then subjected to a small monetary penalty, the so-called "Strafgroschen" [penalty cents], so that there was an extra incentive to pay taxes in the own paper money, so that its circulation would, thereby, become rapidly reduced, and thus its par value restored. / I find it confusing when Rittershausen speaks here of an "exchange rate" or "Kassenkurs" of the issuer's own money towards himself. **Towards himself it had always only one rate, only one "Kassenkurs", namely, the 100 % rate**, not any other or a fluctuating exchange rate. / Signs at the pay offices would rather have indicated: "Our own paper money is here always accepted at par, regardless of its exchange rate in general circulation!" / Everything else would have been all too obviously a fraud.) Money, which has neither general compulsory acceptance nor a cash rate (*100 % acceptance, like the best kind of cash, by the issuer!*), is no money at all, but worthless and will be accepted by nobody. Our later remarks will concern themselves with a still wider acceptance in circulation, by means of clearing or set-off. We will reserve such remarks and merely state that for this purpose the full acceptance rate (the "Kassenkurs" or 100 % cash rate - for the own notes and certificates) must exist in the first place.

Each of the following kinds of acceptance are all to be understood as acceptance at the nominal value, that is, acceptance at par: General compulsory acceptance of valutary money in payments by and to the government - and between private persons -, as well as the numerically limited compulsory acceptance of small change coins and the 100 % acceptance rate, as cash, by the issuer. But something that also occurs is the acceptance below par or above par. In the year 1948, for instance, and during the week of the realization of the currency reform execution, Reichsbanknotes were accepted at only 10 % in payment of D-mark obligations. During the currency reform, in the year 1924, 1,000,000,000,000 Marks were accepted as only one RM, thus very far below par: When official or private issuers deviate from the acceptance at par, then the entire trade follows this practice immediately. (*Well, as soon as it hears about it.*) That applies also to the

acceptance above par: The auxiliary money of the German armed forces in the year 1943 was accepted with an agio (premium) of 900 %, thus with its tenfold nominal value, in order to make its circulation among the civilian population of the occupied areas more difficult. Whoever bought e.g. in a canteen of the armed forces cigarettes priced RM 1, just needed to pay a 10 Pfennig-piece. Thus it follows that not the nominal value is decisive, but always and only the acceptance value, whether this is the enforced general acceptance, the forced limited acceptance or the cash rate. (*The 100 % acceptance like that of ready and generally recognized "ready cash" - This term needs some explanation. It is not self-evidently true and clear.*) The voluntary acceptance of accessory money follows immediately the acceptance rate, which the issuer actually uses. (*The question arises here whether the issuer of accessory money should ever be legally and juridically allowed to accept his own notes at less than their nominal value. - I would deny the existence of such a right of the issuer and acceptor. For all debts owed to him and expressed in his notes and in his value standard, his own notes should have full nominal value, or be legal tender or forced currency or "cash" or 100 % valid clearing certificates.*)

§ 12. General legal tender (compulsory acceptance & forced value)

In history, gold coins were valutary and paper money was accessory. This condition alone was regarded as normal, and one endeavored to preserve it. Knapp describes that under such a gold standard, the bank, which issued the accessory paper money did receive from the

government privileges and advantages, in practice almost always and gradually. It became cash keeper (deposit holder) of the State, manager of its gold reserve etc., so that such a bank could not easily refuse to assist the Treasury when the State had gotten into financial difficulties and wanted to exploit this rich bank as a source of credit for itself. Up to this moment, the accessory money of the bank had been redeemable. When the bank however, semi-forced, granted large credits to its "protector", the State, how, then, could "it henceforth redeem the notes? It is impossible" ... this is well understood even by the State. It decrees: The bank is relieved of its obligation to redeem ... (it) declares these notes to be valutory money; thus the notes receive a compulsory acceptance and rate in all payments among private people, too. "By this most remarkable procedure, which is usually only understood as a severe accident, for a cold-blooded observer the following is determined: Monetary transactions ... do not cease, although the valutory money has changed; it consists not at all

of metal any longer, but of paper ... The government has sunk into 'paper economy'." (Page 129, Knapp, Staatliche Theorie des Geldes [State Theory Of Money], 4. edition, 1923). *(In the German 4th edition of 1924 this passage stands in par 8 a., Banknoten, on page 129. I microfiched it in PEACE PLANS 797.)*

With all that, Knapp describes, without exception, the conditions of a constitutional State only. *(How could he do so, even in the last edition, in 1924, when monetary despotism had, legally, achieved extreme proportions in November 1923? He was born 1842 and died in 1926, thus he was already 82 in 1924 and, possibly, not in the best of health and in top mental form any longer. - The conventional constitutional State is not necessarily one of basic rights and liberties, especially not of monetary and financial rights and liberties. In that respect it can be as despotic as an absolute monarch or dictatorial "great leader". - But then: How many other economists do sufficiently protest against legalized abuses of State power?)* Within the framework of a valutory gold standard currency and a constitutional State the general compulsory acceptance of paper money is quite possible; however, it must be regarded as a disastrous phenomenon, as a state of emergency, as previously mentioned. In internal policies, too, the declaration of a state of emergency is possible, i.e. the temporary abrogation of the rights of citizens. Under both kinds of emergency conditions, the constitutional State is not yet completely eliminated; it has however become, partly, suspended. If one succeeds in eliminating this political or economic emergency condition, or both of them, then the defense of the constitutional State has succeeded. On the other hand, it is not permissible to declare that the political state of emergency or, economically, the declaration of general compulsory acceptance and forced value (legal tender) would be harmless and in conformity with a constitutional State

or a free economy. According to the experience of the last few decades, made in dozens of countries, one rather has to recognize that not only the introduction of a civic or political state of emergency, but also the introduction of an economic state of emergency, is really the first step to a new State and economic constitution, which is nearly always followed by a second or third step. Meant is here the step of a fundamental elimination of parliament, so pleasant for a government, and, financially, the steps of continuous interferences with private property of the citizens, and the use of money for politico-economic purposes, especially in the business cycle and foreign trade policy.

While formerly gold was valutary and paper money was accessory, today paper money is generally valutary and gold accessory. Compulsory acceptance and forced value for paper money do dominate. The note-issuing bank is no longer in control, by means of the free market-rating of its paper money, for this is then no longer possible. It can engage not only in sound but in foul business as well. If it makes mistakes, or even when it practices criminal financial policies, then this is no longer recognizable (*even to itself, its "fever thermometer" or "barometer" being legally broken-up and not repaired or replaced*) except (*somewhat and indirectly*)

by increases of the general price level, which are presented to the public as natural phenomena. The platform has been provided upon which an omnipotent government can grow without restraint. Naturally, it does not have to grow. But it is important that here one has provided a fertile soil for it.

The disagreeable choice between the alternatives: gold standard with accessory paper money or valutary paper money with gold coins no longer of importance, because they are not in circulation, this unpleasant 'either-or' one often tried to change into an "this as well as that". E.g. in the German banking and minting act of 1924, German gold money and the Reichsbanknotes were both granted the valutary status at the same time. One has created gold core standards and foreign exchange gold standards. However, scientifically, all these creations are pure paper standard currencies. For, scientifically, the only question to be asked is: Which kind of money has valutary status? To be applied is Gresham's law.

This law first formulated by Gresham, Minister of Finance of Queen Elizabeth I, states, that bad money drives out good money. It is a law, whose modifications are applicable as far as in sociology, even in zoology, if one regards e.g. the displacement of song birds by sparrows in

metropolitan gardens. But Gresham's law is wrongly expressed in this general form. For money it is valid only, if a governmentally prescribed rate exists between the two compared kinds of money. If a ratio is decreed of 15 g silver = 1 g gold, and if both, gold and silver, are given the valutory status, then silver will drive gold out of circulation, as soon as the silver price, denominated in gold units, becomes cheaper. Then it will be profitable to use the cheaper silver for payments, because then one receives an artificial, because governmentally prescribed, higher equivalent, than by selling the silver at its metal value. At the same time it will pay to withdraw gold coins from circulation, because their metallic value is then higher than their monetary value.

Thus, this law of Gresham is valid only in case of a fixed ratio of exchange rates, but not in cases of the free value development of both (*) kinds of money. (*) *(For Gresham's Law, in its all too general wording, to come into operation, it does already suffice if just one of two metals - or paper currencies - is artificially and legally given a value above its material or market value. Then this money, thus objectively worse than the other, will also drive out the other and by its nature better money, because it is, as U. v. Beckerath said, better for the debtor, not the creditor, to pay with this worse money. The creditor is then not free to refuse or to discount it.)* In this case, on the contrary, a displacement does not take place. Market rating excludes the application of Gresham's law. *(In its all too generalized version. - Few textbooks have fully recognized this. But now and then a genuine economist has expressed the correct and limited version of it or thinks that he has discovered it for the first time. - I think that it is high time to put all of the correct and incorrect versions together, accompanied by their pro and con.)* However, the fixed or forced rate at its merely nominal value does make Gresham's law applicable, if it constitutes a legal value relation to the rare metal coins: In the case of general compulsory acceptance *(and value for inferior money)*, gold money disappears from circulation according to Gresham's law.

This disappearance *(from general circulation in a State territory, not altogether disappearance from this planet!)* is not accidental. Neither is it based on *(directly commanded by)* a government law *(although it is the unintended consequence of a government law)*. It rests upon an economic law, which, by now, imperatively demands its acknowledgment. For this reason and because of the validity of *(the properly formulated)* Gresham's law, all attempts are futile to concede valutory status at the same time to gold and paper. They are futile insofar as in the end merely a pure paper standard results. The gold core has nothing at all to do with the value standard, for that kind of value standard consists of paper. The fact that some gold reserve is collected in the cellars (fractionally covering the issued notes) is economically insignificant. Also, compared with foreign trade turnovers, the gold core is usually insignificant, and mostly it is not used at all either.

The same applies to the foreign exchange reserve of a foreign exchange gold standard. *(The attempts to "lean" on such a currency. One does not have to lean on a sound measure of length, weight or volume, either. And they do not have to be made out of gold.) (Objectively, neither a full gold cover nor full gold redemptionism, nor full cover by gold-covered foreign exchange are necessary for the easy utilization of a gold weight unit as a sound value standard in all contracts, in all competitively issued exchange media and clearing certificates, for the pricing out all goods, services, wages, salaries, pensions rents, etc. in this largely unchanging and unchangeable value standard. It only requires freedom of contract, free gold markets, full publicity for its market rates, expressed in all kinds of paper currencies, but also the free circulation of **at least just a few** full value gold coins, so that at any time they and their purchasing power can be compared with those paper exchange media that are so sensibly issued and withdrawn again that they remain at par with their nominal gold weight value.)*

Probably, there is no need to prove that this pure paper value standard character of the gold core standard and of the foreign exchange gold standard etc. is not only known to but also desired by the creators of these "value standards". They do know exactly the traditional inclination of the large mass of the population towards gold as the most important security means for investments, but they desire the fraud, i.e. the elimination of this security device, while merely preserving a golden façade.

§ 13. General acceptance and general clearing

We had seen that valutory (legal tender) paper currency has not been made by a creative act of government wisdom, but rather by accident. This agrees exactly with experiences of the last decades. The excellent condition of accessory (optional, refusible, competitive, market-rated rare metal coin substitute) paper monies in the United States, culminating in notes of many free note-issuing banks competing with each other, had caused the fabulously fast economical and political rise of the United States. Almost no criticism was heard in the public. Then the Civil War broke out, which - because of its ferocity and extent - is regarded as the first modern war in the history of wars and the financial emergency of the State began. It was bound to its tax sources and its bond issues. Or, rather the financial privation of both states, the Northern and the Southern one, so to speak, which struggled with each other as two federations. The Northern government *(the financial measures of the Southern Federation is less well reported)* tried to induce the banks to grant huge credits. The banks resisted successfully. So the

government imposed a tax of 10% on their (*annual, Rittershausen does not mention this expressly*) note turnover - seemingly a measure in perfect accordance with the conditions of constitutional states, since it was a question of taxation.

No debtor could pay the interest rates now necessary, the private credit business came to an end. (*To the extent that turnover credits were dependent upon private and competitive note issues, e.g. based upon the Real Bills Doctrine. - Naturally, these notes were also used in the market for securities and when they disappeared, being "taxed to death", the financial market was in trouble as well - and so was the government's tax revenue.*). Unrestrained was the note circulation that was based upon credits for government. So the banks had to adjust. (*To a condition where banknotes could only be issued on the basis of government "securities", mainly middle- and long-term ones, misleadingly called an "asset" currency notes, whose cover-assets did no longer provide a sufficient reflux for these notes and thus could not preserve their par value with a sound value standard under free market conditions, but, on the contrary, assured their depreciation.*) By the end of war they were over-burdened by credits to the State and thus almost mere holding companies for government bonds. The paper money did not consist any longer of accessory banknotes (optional, refusible, soundly market rated private banknotes) any longer, but of (*legally imposed*) legal tender state-notes, "Greenbacks".

In 1931, it was similar with us: The Reichsbank had about 3 billion RM (750 million dollar) of gold and foreign exchange. It did not have any foreign debts. According to the law, their directors were liable to penalties if they gave other credits than those based upon good and safe commercial commodity bills. The status of this central bank was excellent, in total contrast to the status of the so called D-banks, which had taken up 6 billions of short term loans abroad and lent them to German industrial companies on a long-term basis. (*Elsewhere Rittershausen & Beckerath agreed, to my knowledge, that this foreign money consisted, largely, of German refuge capital, because the RM was still not generally trusted as a stable currency and much, the German inflation of 1914-1923 still looming large in the public's consciousness and this refuge capital was thus invested abroad, in term of foreign currencies, more trusted than the Reichsmark, and from there re-invested in Germany, as foreign credits, but, for various motives or reasons, mostly only on short terms and then, carelessly, in spite of the short term nature of these funds, invested at high interest on long terms. One had to be a conventional "banking expert" of the time to do a wrongful and foolish thing like that. - But the scope for sound and value preserved long term and productive investments was also greatly reduced by legal restrictions, like the German Trustee Acts & other capital market restrictions. - Thus German industry was starved for long term investments and so these short term credits were used for this long term purpose and no longer rapidly repayable.*) However, the remaining thousands of German banks and savings banks were completely healthy, nearly without exceptions. The "great bank crisis"

of 1931 befell the mentioned morbid institutes only. If one would have let them go bankrupt or allowed liquidation settlement, as German commercial law would have required, in agreement with the commercial law of all developed states, then enforcement (possibility of compulsory seizure of assets) would have been made possible and, by civil law, the subsequent moratorium for the foreign creditors (only large ones) would have been there immediate and easy. 95 % of the creditors, probably those with assets under RM 10,000 or 100,000, could have disposed of immediately, the others would have had to wait, because – well – because they had acted very carelessly and unwisely in business. The remaining, healthy banks, e.g. the Berliner Handelsgesellschaft (Berlin trading company), could have comfortably taken over their business. Life would have gone on without general forced acceptance (legal tender) and without foreign exchange controls; unemployment, until then largely a consequence of latent illiquidity, would have passed, even quickly, as it did after the large crises of 1857, 1907 etc.; and, probably, the gruesome subsequent events would have been avoided.

But what was done instead? General compulsory acceptance and forced value (legal tender) was declared. *(Actually, legally it existed for the Reichsbank's exclusive currency already since 1910. There was only a short interruption for the "Rentenmark", which, temporarily, did not have legal tender. - The forced acceptance for banks referred, rather, to government-issued "securities".)* From then on the Reichsbank was now no longer confined to good businesses, it discounted 2 billions of worthless "kites" or accommodation bills or financial bills ("Kellerwechsel", "cellar bills") and gave for them, quite illegally, metallic gold worth 2 billion RM, with approval and assistance of the Reich's nearly debt free government. The Reichsbank ruined itself, quite uselessly and abandoned the German economy, whose central gold and foreign exchange reserve it had provided to leave it to illiquidity and to inability to export. *(I think that here he should have mentioned that a central gold and foreign exchange reserve is also superfluous for a sound currency that is not redeemable in them. - But in that situation the issued gold coins, gold bullion and foreign exchange were even more uselessly hoarded by others, who got them for their almost worthless papers. The economy was not provided with corresponding and circulating cash.)*

Here, too, the new valutory paper currency (newly issued and forced paper currency, legal tender currency) in combination with foreign exchange controls, was not created as a result of mature considerations of clear heads, not as a result of State wisdom, but as an act of coercion in days of despair. Not even for a moment were the consequences calmly considered, namely the creation of a fertile soil for omnipotent governments.

But, perhaps this was just a well organized coup of specially interested parties, who did not yet suspect, what the future government, prepared by them, would undertake against them.

While the "justification" for the new currency standard was only found afterwards and, one remained loyal to it, the explanation for this was the fact that one was not sufficiently prepared in monetary theory. Thus it was not possible to arouse in the public a clear conviction on what was missing

and what should be done. One was very strongly impressed by the alleged necessity for legal tender (general compulsory acceptance and forced value for government paper money) in order to simplify general payment transactions. The previous payment power regulations (*prior to 1910!*) were declared to be imperfect. According to them, only gold coins were valutary (legal tender) and Reichsbank notes as well as later, after the 1914-1923 inflation, for a short time, the strongly circulating Rentenbank notes were purely accessory money.

However, this system had proven its worth, in quiet times; not even a single case of complaints had become known of, for instance, creditors trying to chicanerously enforce gold payments. (*True for private debtors, but Beckerath pointed out cases, that the Reichsbank, in order to eliminate more and more of its competitors, accumulated private bank notes and then, at an opportune moment, presented them at the issuing bank for redemption in gold! Not only politicians are power-hungry.*)

But the system did not seem to be able to cope with the great crisis and its run upon the gold redemption counters of the Reichsbank. (*It is not quite clear here, whether he meant only the "Great Depression" or other and previous means of payment crises, nor am I certain, that there was any gold coin or bullion redemption obligation provided after 1910 for German Reichbanknotes and even Rentenbank notes. The latter had only some convertibility option into gold clause mortgage, according to my flawed memory of what I read.*)

This had been predicted by criticism for many years but not in a thoroughly established way and, in that, it seems to have been proven quite correct.

Neither in science nor in public opinion was the significance and legal existence of clearing recognized and appreciated. Clearing causes general readiness to accept, like it is known for gold coins. It makes quite superfluous the establishment of a general compulsory acceptance of claims, that are, possibly, below par value.

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Only one cover sheet, on which the title is written:

§ 14. The payment communities.

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§ 14. The payment communities

Both types of government, according to which we classify the different kinds of paper money, are communities, although of a very distinct character.

It was Knapp who had created the fundamental concept of private payment communities. Thereby, he places himself in opposition to the possibility of money issue by a single person, as contemplated by Max Stirner. Such a possibility is not applicable for a powerless private citizen, because standards and money presuppose an agreement of single persons with others, thus community creation. However, a private banker with his customers can already be such a community. *(Individuals, too, could issue their kinds of money tokens or clearing certificates or IOUs, according to their own capacity to supply goods or services and the acceptability of their notes to others. By all such issues they would only oblige themselves to supply services or goods or to redeem them from their incomes. Several and diverse banks could be engaged in accepting and utilizing such notes of individuals among their own customers, for use against these issuers. For this there exist precedents e.g. in the British Empire. Foreign service officers and other public servants, waiting for their salary payments, often "paid" their bills with personal "scrip"*

(slips of paper with their name and address, as well as the amount owed and the date) and these were passed on by the recipients to businessmen who specialized upon utilizing these scrip or private notes in clearing against the deliveries or payment receipts of the issuers. That was easily and profitably done even decades ago, without any electronic computers.) (Historically, many single issuers, like shop owners, factory owners, farmers, mine owners etc. existed. However, issuing attempts are inevitably limited, for optional money tokens, just like presently for cheques, by the right to refuse to accept or to discount them. It takes two to dance tango. One can, naturally, define the voluntary acceptors as members of his private payment & clearing community. But then the issuer would still be only a single person. Only with his acceptors - and presenters of his notes, to him, would he form a payment community. / But there were also times and places when personal IOUs of individuals were commercially widely accepted and, by a good clearing system, subsequently presented to the issuer in payment, when any payment was due to him. That happened e.g. for the IOUs of English colonial officers and public servants in cities of the Far East. Some small bankers and money changers specialized on such transactions. They did not issue them but accepted and returned them in payment to the issuer. Thus they enabled individuals to issue them in payment to intermediary people, from whom they bought goods or services.)

If, however, we consider a single money issuer of extremely great and unlimited power, then and for this case we can reserve the image of the requisitioning receipt, provided by de Viti de Marco for the extreme case of forced and fixed rate money; which, indeed, played a role in practice, in times of political confusions and war.

In his investigation of the banknote, Knapp points out that banknotes are private cashier notes, usable only among the customers of a certain bank.

"These customers and the bank form a private payment community, so to say; while the public payment community is the State ... Banknotes are, so to speak, the money of private communities".

According to Knapp, they are not part of the State's money. He especially thinks about the example of the 1619 clearing bank of Hamburg merchants, established according to Chinese models that had the purpose to mediate the settlement of mutual payments (*not by physical payments but by clearing*).

"Each participant in this institute was member of a private payment community. Each member supplied a certain quantity of silver; seen legally, it was a delivery of ingots, although, technically seen, the supplied silver consisted of coins. Because the institute did not take coins according to Chartal law (*Knapp's still not popular term!*), i.e. according to their nominal value, like paper money printed on silver-sheet-metal but only as pieces of well-known fineness and of

their real weight. The institute stored the supplied silver physically, without using it for any business, and returned it only if the member required it - however it returned them only as long as the deliverer had not yet disposed of it. Its handing-in

(J.Z.: here the typed and hand-corrected 5th draft ends which I possess, incompletely, in photocopies. Obviously at least one further page is missing. At present, I will not try to fill in the still omitted or incomplete quotes from texts available to me. Others, too, could do that more or less easily themselves.)

*(If a real economic science existed already, then the last version of this incomplete manuscript would have been long ago dug up, published and sufficiently discussed. Alas, a real economic science exists so far only between a few people and these have so far not even thought of organizing the publication of **all** such texts and of their discussions, at least on microfilms, floppy disks, CDs, websites or in emails.*

Indeed, a few hundred of such texts do already exist on the Internet - but still no complete list of them and, so far, I tried in vain to rouse some interest in such a collection, publication and discussion. Numerous written or oral discussions between a few people and on less important sub-problems cannot replace such fundamental scientific preparations, labours and publishing efforts.

I have yet to come across anyone who knew about and had ready access to all these texts and discussions.

FIXED RATE & LEGAL TENDER OR FORCED CURRENCY: "Fixed rate" is a term which Rittershausen often used in this connection. But I am of the opinion that a combination of two such good and clear terms as "fixed" and "rate" should not be used or abused for an official and legalized crime like that of "legal tender" Paper money.

Consider: Against whom has the paper money of the government a really "fixed" value? Only against itself and against other creditors and this in the wrongful and misleading sense of "Mark equals Mark!" or "Dollar equals dollar!", regardless of how much depreciated either of them has become.

In reality only a nominal, official and legalized fictitious or fiat "value" is enforced thereby - and this for an almost continuously depreciated money, which is accepted only because of its legal tender power and its remaining and incomplete tax foundation and its monopoly position as the exclusive national currency. Otherwise, it would be widely refused or discounted far below its nominal, legal and fiat "value" and "fixed rate", and would be freely and rapidly replaced by better value standards and means of exchange, issued and used in competition with it.

Its "fixed rate" is mostly not applied in foreign exchange trading, either, unless there, too, fraud is officially and coercively conducted by special government treaties. With a "fixed rate"

money only its monopoly position, its coercion, its wrongness and harmfulness are really determined and "fixed".)