



# INFLATION IS COMING!

a practical post-war plan

by *Ralph Borsodi*

ISSUED BY THE RESEARCH DIVISION OF *The School of Living* OF SUFFERN, N. Y. (INC. IN 1935) PUBLISHED BY *Bayard Lane, Inc.*, PUBLISHER

"All the News That's Fit to Print."

# The New York Times.

LATE CITY EDITION

Copyright, 1934, by The New York Times Company.  
NEW YORK, MONDAY, MARCH 6, 1934.

TWO CENTS In New York City | THREE CENTS Within 500 Miles | FOUR CENTS Elsewhere Except in 7th and 8th Postal Zones

## ROOSEVELT ORDERS 4-DAY BANK HOLIDAY, PUTS EMBARGO ON GOLD, CALLS CONGRESS

### HITLER BLOC WINS A REICH MAJORITY; RULES IN PRUSSIA

### Mob Attacks Stalin's Home In Wide Riot, Tokyo News

### JAPANESE PUSH ON IN FIERCE FIGHTING; CHINA CLOSING WALL

### Relief Wages Will Be Paid Despite Holiday, Gibson Says

### BANKS HERE ACT AT ONCE City Scrip to Be Ready Today or Tomorrow to Replace Currency

### The President's Bank Proclamation USE OF SCRIP AUTHORIZED

### President Takes Steps Under Sweeping Law of War Time.

FEBRUARY 1, 1934.

TWO CENTS In New York City | THREE CENTS Within 500 Miles | FOUR CENTS Elsewhere Except in 7th and 8th Postal Zones

### PLATON WANTS MAYOR'S BILL RESCUE CITY

## DOLLAR REVALUED AT 59.06, GOLD PUT AT \$35 AN OUNCE; STABILIZATION FUND SET UP

THE NEW YORK TIMES, THURSDAY, OCTOBER 24, 1929.

## PRICES OF STOCKS CRASH IN HEAVY LIQUIDATION; TOTAL DROP OF BILLIONS

### HOOVER PLANS INFLATION

### GOLD BULLION STANDARD Metal to Be Sold at \$35 as Well as Bought to Steady the Dollar.

PAPER LOSS \$4,000,000,000  
2,600,000 Shares Sold in the Final Hour in Record Decline.  
MANY ACCOUNTS WIPED OUT  
But No Brokerage House Is in Difficulties, as Margins Have

### Thyroid De... Should Be

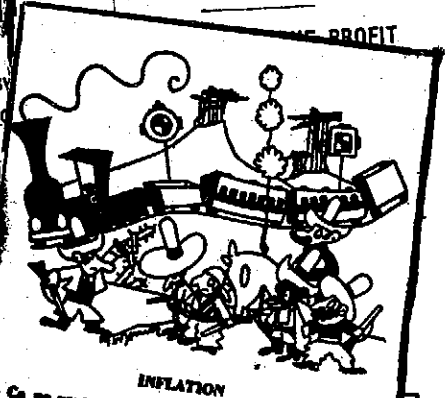
Special... BALTI... Upon pe... pends... ciency... Profess... Univers... dress... Biologi... cine of... Perso... cretion... be e... Dr... perit... than... requ... oxy...

### WARREN DEFENDS CUT IN THE DOLLAR

### NORTHWEST UNITED ON CHEAPER MONEY

### Inflation Hurts All Who

### PRINTING BILLIONS Presses Busy Turning Out \$10,000 Gold Notes.



### TRAIN ROBBERS, 1934 STYLE "That train isn't worth holding up; it's carrying a cargo of dollars." - Le Reve (Paris)

### GOLD BLOC IN PARIS IN INTERNAL C... EXCHANGES S...

France is increased Special Rate Given Hotels on the P... ALSO CRITICIZED

### FRENCH DISMAY AS POUND TUMBLES TALK OF DEVALUATION

Say That if a Currency War Started, Gold Countries Make Huge Cuts in Par... HOPE U.S. WILL OPEN F...

### POUND & DOLLAR IN OPEN WAR BATTLE OF SIZZLING MILLIONS GOLD DEMAND

this... oclamation... atically effected these... nuous changes: reduced the dollar's gold weight 25.8 grains to 15 5/21 grain... fine, making its gold value... per cent of the par fixed... act of 1900. In other words, American dollar is now worth cents plus-in gold. Fixed \$35 (loss a 1/4 of 1 per cent charge) as the price this government will pay per fine troy

LOOKING BACKWARD — BY COMPARISON the Coming Depression Will Make the Last One Look Like a Summer Picnic.

THE WEATHER

Today: Mostly sunny, warm and more humid; highest temperature near 85 degrees; gentle to moderate variable winds. Tomorrow: Considerable cloudiness, possibly scattered showers in afternoon; warm and humid. Temperatures Yesterday: Max. 74; Min., 65. Detailed Report on Page 8

NEW YORK

Herald



Vol. CV No. 36,070

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SATURDAY, AUGUST 18, 1945

Lay-Offs Rise in U. S., Mo

Mass Lay-Off Hits 130,000 In N. Y. Area

30,000 Let Go Outright in Day, 100,000 Others May Be Called Back

Wright Closes Plant At Wood-Ridge, N. J.

No Rush Yet for Jobless Insurance, but Fund Is Reported Sufficient

By Robert W. Glasgow Jr. The nation's economy continued to reverberate with the impact and confusion of peace yesterday as new thousands were laid off from work and even larger numbers were told to go home and wait while their employers figure what to do next.

In the New York metropolitan area alone there were upward of 30,000 workers laid off outright. Few of these could hope to return to their old jobs. And estimates on those in this area hit by temporary lay-offs, while their employers analyze the means of continuing stream-

tract cancellations as 100,000. Many of them will have to seek work elsewhere. Not all the laid-off workers are scrambling to find new production, but many are waiting for the blizzard of new jobs to be announced at Wood-Ridge, N. J., plant of Wright Aeronautical Corp.

Meat Rationing May Be Ended

Winson

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NEW YORK, SATURDAY, AUGUST 18, 1945.

100,000 LAID OFF IN WAR JOBS HERE AS CONTRACTS END

Orders Canceled Estimated at \$100,000,000 as Plants Close for 'Inventory'

SOME WILL BE RECALLED

Belief Is Expressed That There Will Be Enough Work for All After Initial Curtailment

War plant workers in the metropolitan area, principally those engaged in the manufacture of airplane engines and parts, found themselves laid off yesterday when they reported to work.

SERVICES TO DROP 7,000,000 IN YEAR

Rate of Demobilization Will Be Affected by Decision on Continuing Draft

By JAY WALZ WASHINGTON, Aug. 18.—Fifteen minutes after the President announced the end of the war...

Chicago Loses \$800,000,000 War Contracts

600,000 Illinois Workers Expected To Be Laid Off During the Coming Months

THOUSANDS STORM JOB OFFICES HERE

Rush Is On in Metropolitan Area as Additional Plants Announce Dismissals

Treasury Sees Inflation Peril Still at Peak

Magazine Editors Warned of Risk; Gamble Talks on Victory Loan Plans

Threats of inflation are "more aggravated than at any time in our history."

Money in Circulation Reaches New Peak

By the United Press. WASHINGTON, Aug. 18.—Money in circulation rose some \$82,000,000 in the week ended Aug. 15 to an all-time high of \$100,000,000,000.

300,000 IN DETROIT FACE LOSS OF JOBS

Auto Industry Is Only Partly Prepared for Reconversion at This Time

DETROIT, Aug. 15 (AP)—The cancellation of war contracts in the automotive industry...

1,878,000 WORKERS TO LOSE THEIR WAR JOBS SOON

Survey Shows 400,000 Are Already Out—438 Plants in This Area Affected.

New York Journal-American advertisement with logo and subscription rates.

183,000 Fired

N. J., plant of Wright Aeronautical Corp.

Peace Job Hunt Begins—Will Savings Last?

By MALCOLM LOGAN

PM, TUESDAY, AUGUST 21, 1945

200,000 Jobless Seen Here by Week End

LOOKING FORWARD — HEADLINES Already Tell Unemployment Story.

AND PHARAOH SPAKE UNTO JOSEPH, "IN MY DREAM, BEHOLD, I STOOD UPON THE BRINK OF A RIVER. AND BEHOLD THERE CAME UP OUT OF THE RIVER SEVEN KINE, FAT-FLESHED AND WELL FAVOURED, AND THEY FED IN THE REED-CRASS. AND BEHOLD SEVEN OTHER KINE CAME UP AFTER THEM, POOR AND VERY ILL FAVOURED AND LEAN-FLESHED, SUCH AS I NEVER SAW IN ALL THE LAND OF EGYPT FOR BADNESS. AND THE LEAN AND ILL FAVOURED KINE DID EAT UP THE FIRST SEVEN FAT KINE. AND WHEN THEY HAD EATEN THEM UP, IT COULD NOT BE KNOWN THAT THEY HAD EATEN THEM. SO I AWOKE." . . . AND JOSEPH SAID UNTO PHARAOH: "WHAT GOD IS ABOUT TO DO HE HATH DECLARED UNTO PHARAOH. THE SEVEN GOOD KINE ARE SEVEN YEARS . . . AND THE SEVEN LEAN AND ILL FAVOURED KINE THAT CAME AFTER THEM ARE SEVEN YEARS . . . BEHOLD THERE (WILL) COME SEVEN YEARS OF GREAT PLENTY THROUGHOUT ALL THE LAND OF EGYPT. AND THERE SHALL ARISE AFTER THEM SEVEN YEARS OF FAMINE, AND ALL THE PLENTY SHALL BE FORGOTTEN IN THE LAND OF EGYPT AND THE FAMINE SHALL CONSUME THE LAND . . . FOR IT SHALL BE VERY GRIEVOUS."—GENESIS 41:17-31.

THE NEW YORK SUN, MONDAY, JANUARY 21, 1946.

# Inflation Is Held Chief Worry

Plan for 36-billion-dollar Outlay Is Four Times What New Deal Spent Annually in the 1930s.

By PHELPS ADAMS.

Special to THE NEW YORK SUN. The New York Sun Bureau, Washington, Jan. 21.

President Truman, in his annual message to Congress today, unveiled a monumental post-war budget calling for the most lavish expenditures ever contemplated by any government on earth in any peace-time year. Forecasting a Federal outlay of nearly \$36,000,000,000 and a deficit of more than \$4,000,000,000, he charted a financial course under which the Government—for the seventeenth consecutive year—would live beyond its means, and he warned Congress that it must even consider . . .

MARGINS ON STOCK LIFTED TO 100 P. C. AS INFLATION CURB

Reserve Board Order, the First Such in History, Not Enough by Itself, Eccles Warns

DEMANDS BUDGET BALANCE

Treasury Must Stop Financing Debt by Banks, He Says—Exchanges Expected Step

By JOHN H. CRIDER  
Special to THE NEW YORK TIMES.  
WASHINGTON, Jan. 17—

in requirements for the h

## ***Why This Book Is Being Published***

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In spite of five years of the greatest boom in the history of America; in spite of billions in "savings" and banks bursting with "excess credit," the threat of the worst financial disaster in history hangs over the American people. Inflation, with its accompanying evils, unemployment and depression, is coming. Nothing which can now be done by Washington can stop it. This book is being published, therefore, by a Committee which believes that the security and happiness of millions of American homes depend upon action, family by family, along the lines recommended by Ralph Borsodi.

On September 15, 1943, the "Friends of the School of Living" sponsored a great dinner meeting at the historic Aldine Club at Fifth Avenue and Twenty-Third Street, in New York City. Over five hundred men and women heard Ralph Borsodi make an address entitled "What Americans Can Do About the Postwar Collapse." Pearl S. Buck made an introductory address. After Mr. Borsodi's eloquent plea for preparedness for the coming economic and social disaster, there was a panel discussion. William H. Kilpatrick, Emeritus Professor of Education of Columbia University, acted as Moderator. In order to give you some idea of the distinguished group which participated in this unique event, we list the leaders of American thought who took part in the discussion which followed:

Harold S. Bутtenheim, Editor "The American City"; Roger Baldwin, Director American Civil Liberties Union; Leo Cherne, Executive Secretary Research Institution of America; Margaret Bateman, Director Henry George School of Social Science; Eloise Davison, Director "New York Herald-Tribune" Home Institute; Winifred Fisher, New York Adult Education Council; Lancaster M. Greene, Robert Schalkenback Foundation; Ralph W. Gwinn, member of Congress and co-author of "Fifth Avenue to Farm"; Wallace J. Campbell, Assistant General Secretary, Co-op League, U. S.; Salom Rizk, lecturer for "The Reader's Digest"; Robert L. Smith, Educational Director Eastern Co-op League; Ordway Tead, President Board of

Higher Education, New York City; Harold S. Overstreet, Professor of Philosophy, New York University; Richard S. Walsh, editor "Asia."

In order to make certain that as many Americans as can be persuaded to read this book are furnished clear, practical and specific directions about what they can do to prepare themselves for what is coming (in addition to the general recommendations made in the Aldine Club speech), this Committee has asked Mr. Borsodi to answer five questions:

*I. What should a family do NOW with its money, savings and bank deposits in order to avoid their becoming worth less and less, and perhaps entirely worthless, before the coming inflation is over?*

*II. What should a family do NOW with its investments and savings in stocks and bonds in order to avoid their becoming worth less and less as inflation comes?*

*III. What should a family do NOW about its life insurance in order to prevent the protection it furnishes from becoming worth less and less as inflation comes?*

*IV. What should a family do NOW in preparation for the time when the dollar is rendered worth less and less by inflation? What should families dependent upon salaries and wages do? What should farm families dependent upon cash crops do? What should families dependent upon savings or pensions do? What should families which look to social security in the event of unemployment do?*

*V. What should a family do NOW in preparation for the time when business depression and unemployment reduce or wipe out their income and make it impossible for them to pay the interest and principal on the mortgages and debts? What should a family do now to protect itself against the possibility of the foreclosure of its home or farm?*

Mr. Borsodi has supplied this Committee with answers to these questions in the most simple, direct and practical manner. The Committee is including his answers in this book. They are a guide which every man or woman who feels a sense of responsibility for the future security of their families should use NOW before it is too late. The members of this Committee have been following Mr. Borsodi's teachings and suggestions for years, and have found them sound and practical. We know that if you follow them in time, you, too, will find answers to your problem of living in a period of world history when the foundations of civilization are being shaken to pieces.

### ***The Patriotic Purpose of this Book***

This Committee is sponsoring the publication of this book for the single, patriotic purpose of helping the people of America, family by family, to save themselves from a disaster which the nation cannot escape.

Every American owes five duties — a duty to his own family; a duty to his neighbors; a duty to his country; a duty to humanity, and a duty to his God.

He owes not one single particle of duty to those politicians in Washington who, in the face of the most explicit warnings, adopted a completely vicious method of financing the war. These politicians have lived on the fat of the land throughout the whole course of the war. While the rank and file of people have been deprived of comforts and conveniences — and sometimes necessities — they enjoyed greater security and luxury than ever before. While millions of Americans in uniform were enduring the most terrible sufferings and risking their lives to save America from the threat of world totalitarian tyranny, they have continued to draw their fat incomes and to enjoy the thrill of seeing the rest of us ordered about with regard to the most minute affairs of life.

But the war no longer furnishes us any reason at all for considering them. There is now not the slightest reason to follow the instructions of politicians in Washington who have been misleading us about the postwar situation.

The Committee which is issuing this book is anxious to share the security which they are preparing for their own families with their fellow Americans. That is the reason they are publishing it.

Every statement in it, to the best of our knowledge and belief, is the truth, the whole truth, and nothing but the truth.

It is impossible to exaggerate the danger you and your family face.

Read carefully every line and study every chart and figure in this book. Study carefully the plan which Ralph Borsodi has been recommending in his lectures and books.

You will find it, as we have, *the one way out*.

## ***Who Is Ralph Borsodi ?***

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Ralph Borsodi is an author, lecturer, economist, and philosopher.

In 1933 he retired from his professional work in business, and decided to spend the rest of his life studying the problems of living in the machine age. With a group of distinguished leaders in education he founded a research institution at Suffern, New York, called the School of Living.

He is the author of seven books, most of them dealing with economic problems, based upon his experience as a Consulting Economist for some of the largest firms in America. Among them was R. H. Macy & Co., the largest department store in America; the National Retail Dry Goods Association, the largest business association of its kind in America; the Spool Cotton Company, the largest corporation in its field in the world, and dozens of similar corporations and institutions.

In 1928 he wrote a book entitled "This Ugly Civilization." Harry Elmer Barnes, one of the great historians of our times, wrote an introduction to it. The New York Times gave a whole page to a review of it. The New York Herald-Tribune reviewed it in two issues of its Book Section. The

New York Evening Post said it was "One of the most important recent books on the mastery of modern circumstances, written with sustained eloquences and force."

At the time the book was published, America was enjoying the greatest boom in its history. Economists and politicians, bankers and business men were saying we had entered a New Era, and that because of the Federal Reserve System we would never have another depression.

In this book, Ralph Borsodi denied this and said that, on the contrary, *America was heading toward a great disaster.*

A year later, in October 1929, the stock market collapsed and America started on ten years of unemployment and depression, foreclosures and bankruptcies.

### ***What About the Present Situation?***

It is ironical, but it is the simple truth, that it was the war which started in Europe, which ended the depression that Mr. Borsodi forecast in his book. It was the war into which Hitler and Mussolini and the Japanese war lords plunged the world which ended the great depression. It was not anything which Washington politicians did for us.

For the past five years we have been in the midst of another great boom — a boom much greater than the one which crashed in 1929. On May 27, 1941, at a dinner of the Public Affairs Committee of the state of Virginia, held in Petersburg, Virginia, in a lecture on "The Economic Future," Mr. Borsodi made another prediction. He repeated that prediction in a lecture on the same subject at the University Club in Annapolis, Maryland, a year later; and, finally, in the dinner at the Aldine Club in New York.

In these addresses, he said that America was again headed for financial disaster. But this time the disaster was having its foundations laid, not by what was happening in Wall Street, but by what was happening in Washington.

He pointed out that while nothing could be done by anybody to prevent this disaster, individual families could save themselves.

Now that the war is over; now that the problems of the post-war world are beginning to take definite shape, it is time for every family to take warning and to prepare themselves.

There is still time for them to save themselves.

When Noah knew that there was going to be a great flood — and that nothing which he could do would avert it — he didn't wait until the rains began to fall.

While the land was still dry, he began to build an ark. He stocked it with all the things which his family would need. He prepared himself for the coming disaster. He was unable to save the rest of mankind. But at least he was able to save his own family.

---

***Frank G. Chiles, Bethlehem, Penn.***  
***Mildred Jensen Loomis, Brookville, Ohio***  
***Emma E. Maunsell, Suffern, N. Y.***  
***Herschel Papiroff, New York City***  
***Katherine Smith, Lubbock, Texas***  
***Edward J. Teal, Suffern, N. Y.***



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## *what is inflation?*

Inflation is a word applied to so many different things that it is necessary to make very clear what Mr. Borsodi means when he speaks of inflation. Mr. Borsodi does not mean any of the mystifying things to which many economists apply it. These things, he says, are the effects of inflation; they should not, therefore, be called inflation itself. Inflation itself, he says, is *an increase in the amount of money issued without regard to the quantity of ordinary consumption goods being bought by the ultimate consuming public.* There are three things in this definition which need explanation: (I) *money*; (II) the manner in which it is *issued*; and (III) what is meant by *consumption goods being bought by the ultimate consuming public.*

I. By money is meant anything whatsoever which it is legal to use as money and which it is customary for people to accept in payment for goods or for their labor and services. There are many kinds of money, the most important kind today being paper money.

II. The most important thing to understand about money is the one thing about which most people know nothing at all: the manner in which it is issued and retired. If money is both properly issued and properly retired, it is good money, and if it is improperly issued and retired, it is bad money. Our money system, he insists, is a bad system because it is based upon the financial needs of the government and because it is tied to the national debt. That is the reason, he explains, that we have periodical financial booms and financial panics. If we had a proper money system, it would completely eliminate the disastrous depressions which we have had every ten years or so in the history of America, and prevent the catastrophic depression which is going to hit us sometime within the next few years.

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III. Now what does he mean when he says that the only proper way to issue money is for the purpose of enabling people to buy ordinary consumption goods? He means that the volume of money issued should rise and fall in strict relationship to the volume of merchandise being bought by the public at retail. If it is issued for any other purpose—for the purpose of financing the war, for the purpose of creating 60,000,000 jobs, for the purpose of expanding industry, or for the purpose of stimulating speculation in the stock or commodity markets—it is being improperly issued. Our money today is being improperly issued because it is being issued for the purpose of financing the costs of operating the government. This does not mean that the war should not be financed. It does not mean that it is not desirable to expand industry, or to create jobs. It simply means that it is an economic, political and social crime to issue money for any other purpose than to make possible the purchase and sale of the ordinary necessities of life.

Mr. Borsodi uses this strong language because, he says, whenever money is issued on any other basis or for any other purpose, it fluctuates in value and purchasing power. If the basis upon which it is issued provides too little money for the purchase and sale of ordinary merchandise at retail, people cannot buy what they want; the money rises in value; it becomes harder and harder to get; business is slowed down; unemployment develops. This is what is called deflation. If the basis upon which money is issued provides more money than is needed for this purpose, the money begins to lose value and purchasing power; prices rise; people buy more than they need and hoard goods in order to avoid having to pay higher prices in the future. And if so much money is issued that people begin to lose confidence in it and begin to be afraid that it will lose purchasing power, then they frantically try to exchange it for anything at all which has tangible value. This process of issuing money improperly is what Mr. Borsodi calls inflation, and when it is continued to a point at which people begin to lose confidence in their money, then that process can properly be called runaway inflation.

The important thing to remember is that *inflation is always caused by the over-issue of money by the government*. It is not caused by anything which the public does or does not do.



because this is what will happen



Mr. Borsodi's address on "What Americans Can Do About the Post-War Collapse," made at the Aldine Club, in New York City, on September 15, 1943, was as follows. As will be seen, it is based upon the fact that we face—

- Inflation and national bankruptcy;
- Nation-wide post-war unemployment;
- World-wide business depression.

Mr. Borsodi says that it is impossible to say just when we shall have to face this catastrophic situation, but he insists that it is something which the nation cannot escape.

MR. CHAIRMAN, LADIES AND GENTLEMEN:

It is important in beginning the discussion which has brought us together tonight; in beginning this discussion while we are yet at war, that we remind ourselves that the greatest effort on the part of the nations united to defeat the Axis powers may yet lie ahead; that our own contribution may as yet have only begun.

But if we keep this steadfastly in mind, it is not at all too early to ask, "After the war, what is to happen, not only in our own nation, not only in war-racked Europe, not only in ancient Asia, not only in the uttermost isles of the seas, but what is to happen to us individually? What is to happen to our families, our friends, our neighbors? What is to happen to our business enterprises, our jobs, our homes, our farms?"

The air is full of post-war blueprints. Some of them deal with problems of preventing war. Many of them deal with the problem of prosperity. Nearly all of them, however, are blueprints dealing with what *should* happen after the war.

In calling them blueprints, I am not trying to belittle them. I am merely trying to emphasize the point that they are plans for what should happen after the war. They are not studies of what *will* happen.

Blueprints — post-war plans and programs — which do not take into account every significant factor in the conditions which the nation must face, are worthless. No matter how impressive; no matter how ingenious; no matter how great the reputation of the individual or institution which prepares them, if they ignore the most important development which the post-war period holds in store for us, they are snares and delusions.

People who shrink from looking far ahead — who believe "sufficient unto the day is the evil thereof" and who are content to live only in the present moment — may say that it is impossible to forecast what will happen.

But while that is true in one sense, it is not true in another. It is true that it is impossible to forecast the accidents of history. But it is entirely possible to forecast "the shape of things to come."

During the first World War, who could have forecast that an obscure German army corporal by the name of Adolf Hitler would rise to power and plunge the world into another great war? But during the last war it was easy to forecast that the war would be followed by unemployment, famine, inflation, revolution and repudiation. And for the same reason, we can tonight forecast what will happen after the present war is over because we still know that civilization is dependent upon butter, not guns; that war is as destructive as war has always been; that the rulers of nations are still politicians to whom politics is dearer than dealing with unpleasant facts.

Upon this fundamental basis, it is possible to lift the curtain of the future and to see with almost crystal clarity some of the things which are certain to happen after the war. I propose to lift that curtain, not out of idle curiosity, but for the purpose of asking what we might do individually, in groups, and community by community, to prepare for what is actually coming.

## the devastation of the fertile green valley in which we live

Let us assume that those of us who have assembled here tonight are engineers.

Let us assume that we are the leaders in our profession in a great region occupying a fertile green valley, dotted with homes and farms, with towns and cities, through which a swift flowing small river meanders to the sea.

Let us assume that at the head of our valley, a colossal dam, much larger than Boulder Dam, has been built across the valley, and that behind it a huge inland sea of water is impounded.

Let us assume that this dam not only prevents floods and devastation in our valley, but also furnishes us the power which enables our people to live prosperously and to sustain the industries which furnish them their livelihood.

Upon the holding strength of that dam, naturally, the well-being and the life of all the people in our valley would be dependent.

Let us finally assume that we have been called together by our government to decide what should be done *because cracks and fissures have been discovered in that dam.*

Let us suppose that after listening to the officials in charge of the dam, we had sent a group of the ablest members of our profession to investigate it, and that we were nervously killing time while we waited for their report.

Now let us suppose that there was a sudden hush as our investigating committee filed into our meeting and the white-haired dean of the engineers in our region rose in the rostrum and the one man in whose integrity and capability every one of us had the utmost faith, turned to report to us. With every eye focussed hypnotically upon him; with every ear tuned to catch every word he uttered; with every one of us tense and expectant, let us suppose that he said to us:

"Gentlemen, the dam is doomed!

"Nothing that it is possible for us to do can save it. All the means at our disposal, and all the technical knowledge we possess can only postpone the moment when it will burst and the torrent sweep down the valley and destroy everything in its path.

"The only thing about which we are not in complete agreement is the time when it will burst. We feel there is no way in which it is possible to fix that time. It may be a matter of days; it may be weeks or months from now; the time may even stretch out into years. Events which no human power can foresee — unusually heavy rains, further failures in the concrete, mistakes in trying to operate the dam and in trying to repair it — any of these may precipitate the final catastrophe.

"This, gentlemen, I regret to say is what your committee finds itself compelled to report to you."

The question which I now want every man and woman in this audience to ask themselves is: *What is the duty of these engineers in this matter?*

Suppose one of the incurable optimists in the audience got up and said:

"We must keep this dreadful news secret. Under no circumstances must the public confidence be disturbed. It will not only alarm everybody but it may interfere with their production of the goods upon which the prosperity of the region is dependent and which the world looks to us to supply.

"Let us do everything we can to repair the dam. Besides our investigator may be mistaken. There may be no heavy rains. Repairs may prove stronger than our committee believes possible. Let us do everything we can on the theory that *we can hold the line*. Who knows but miracles may turn up to save us?"

Again I ask you, *What is the duty of engineers in this matter?* Should they hide the report of their investigating committee deep in the vaults of the association; should they pledge every man present who has heard the truth to speak only in accordance with an official propaganda line; should the meeting announce to the restless public that the dam can be held if the people all cooperate with the officials who are in charge of it?

Or is it their duty as the stewards and custodians of truth and knowledge, and as the professional group to which the public would naturally turn for guidance *to tell the public the truth*; that the dam cannot be saved; that sooner or later a catastrophic flood must sweep through our valley, and that the thing to do now, while there is still time, is for everybody to begin the work of removing all the movable wealth in the valley to places of safety; to plan for the removal of every man, woman and child to the safety of the hills, and to post trained sentries to warn the entire valley in ample time of the exact moment when the dam begins to burst?

I ask you again, *What is the duty of engineers in this matter?*

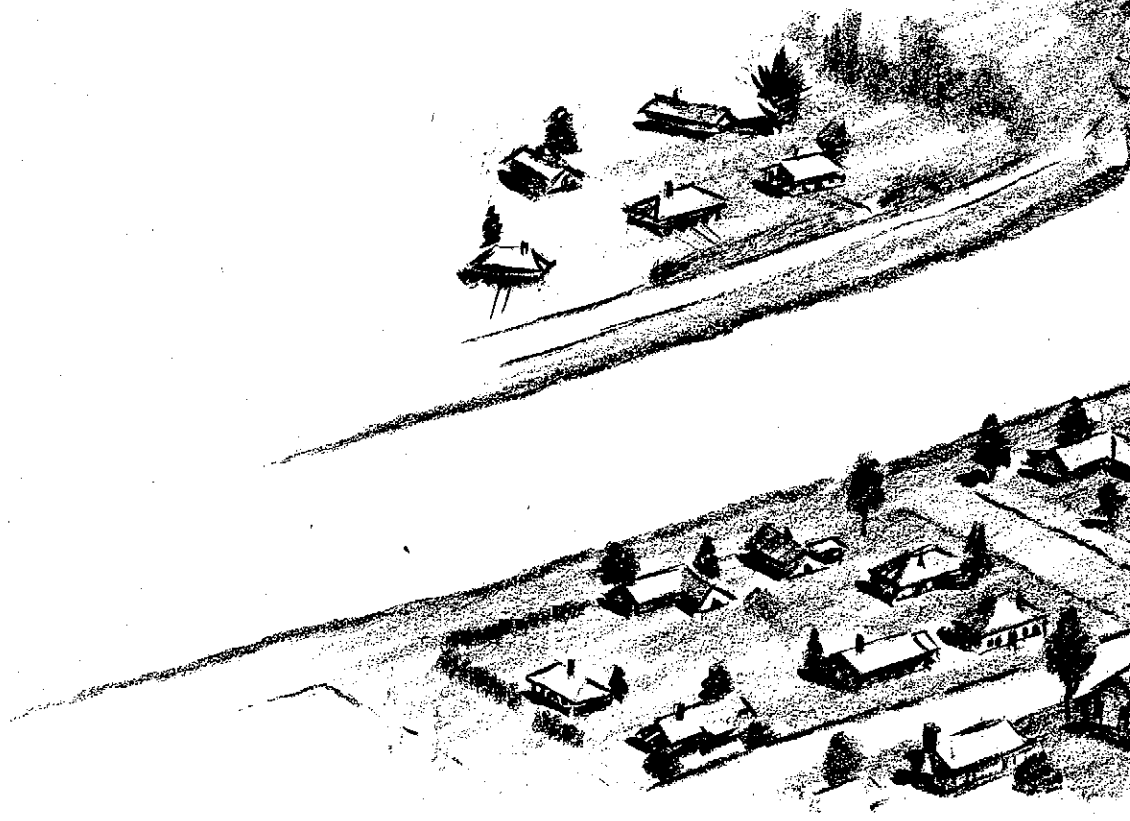
## inflation cannot be halted now

I am sure that you will forgive me for having stretched this analogy perhaps to the bursting point. But I know of no better way of making clear the thesis which I wish to present for your consideration, and the moral problem with which it confronts every leader and potential leader of the public in matters of politics and finance. As I see it, we are assembled here to discuss not the possibility of the breaking down of a great dam, but the possibility of an economic phenomenon which is called inflation.

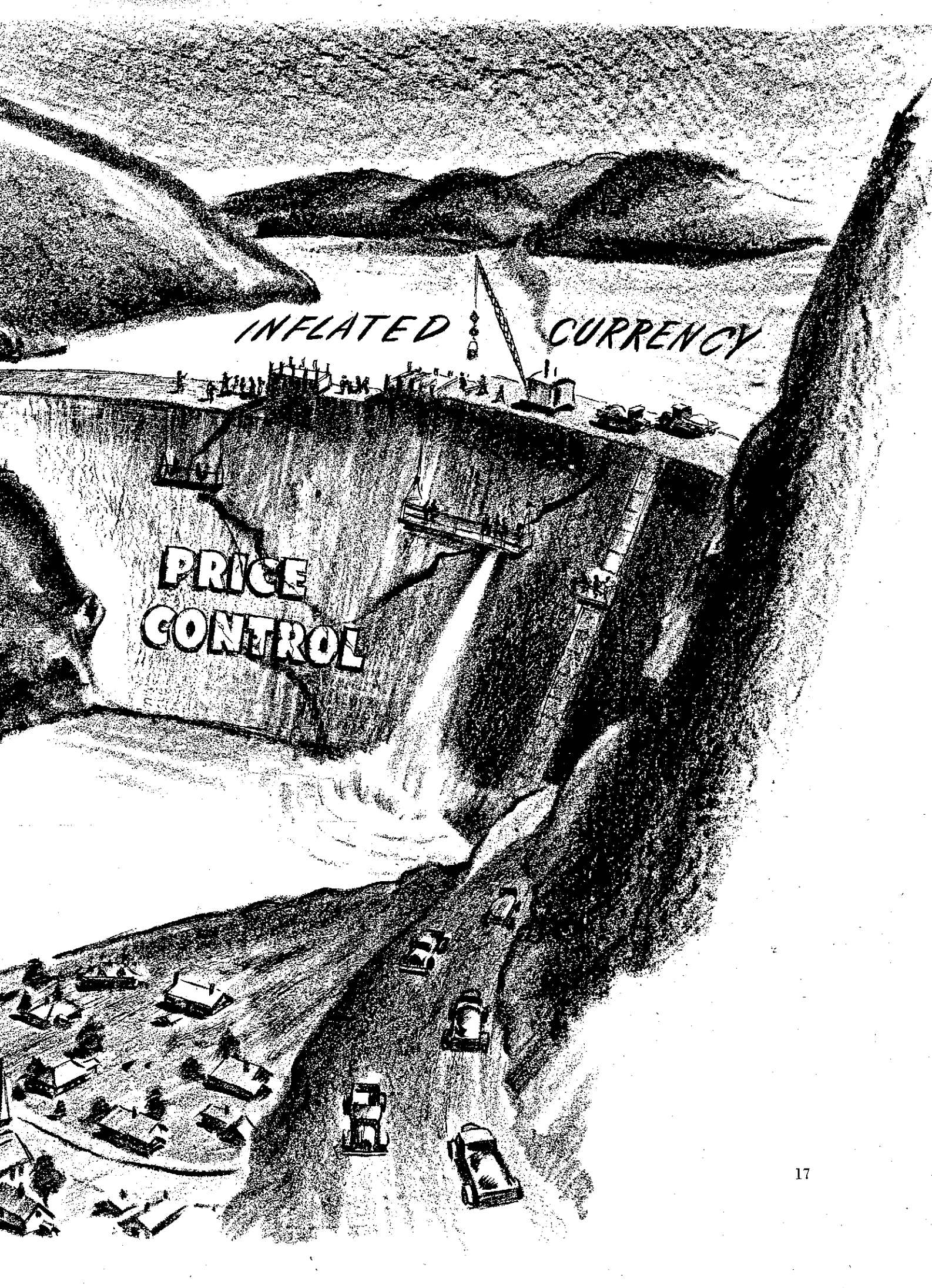
We assemble in a state of profound bewilderment because everything said about inflation is based upon an official propaganda line; a propaganda line which says that nothing may be said to the public which might possibly interfere with financing of the government and presumably the successful prosecution of this war. So all discussion of inflation is directed toward what might be done to "hold the line" and to halt inflation. A thousand different plans for "holding the line" are submitted by a thousand different officials, economists, and amateur financiers. Ten thousand conflicting directives are issued by officials as to what the public should do in order to "hold the line."

**THE DAM IS DOOMED!**

Nothing now can save it.  
The only uncertainty is *when*  
it will burst and the torrent  
sweep everything before it.







In the midst of this babel, I have a report to submit to you which I can boil down into a single, brief sentence of just four words:

*Inflation cannot be halted.*

Its beginning is already here.

In runaway form, it is inevitable.

Nothing which our officials can now do; nothing which the public does; nothing which business, or the farm bloc, or labor, or any group or individual in America can do, can save us from ultimate and catastrophic inflation. The only question in doubt is when the final catastrophe will take place; when the American dollar in which we pin our faith will go the way of the French franc, the Italian lira, the German mark, and the Russian ruble.

I turn now to the blueprints for dealing with post-war problems. I do not propose to examine them at great length. It is not necessary to bore you with a wearisome and detailed analysis of myriads of post-war plans.

But I have examined many of them.

They differ enormously in detail.

You cannot examine what the proponents of the New Deal plan; what the business men who advocate free enterprise plan; and finally what American Communists plan (and we should not ignore them because over them is the shadow of Russia), without being bewildered by the differences in them. But there is one respect in which all the plans are alike. There is one assumption with

which every single plan without exception begins. And it is this assumption that I wish you to examine carefully.

This is an intelligent audience. There is not a single man or woman in this audience who is not capable of passing a reasoned judgment upon this assumption.

\* \* \* \*

Now just what is this assumption common to all these plans and blueprints?

It is the assumption *that there will be no runaway inflation after the war* — that we shall not be faced with the problem which the people of Germany, of Russia, of Austria, and of most of Europe had to face after the first World War.

All these plans assume that we shall in some way or other be able to halt inflation — to hold the line — that the dam will not burst. This is error number one in all these plans. It is so serious an error that it almost makes it unnecessary to catalog the other errors they contain.

When we examine these blueprints in detail, what is the conclusion to which anyone who faces the problem realistically is inevitably driven? It can be expressed by a single word — they are *inadequate*. I mean specifically that these plans without exception assume that there will be no depression after the war — that we shall have such a pent-up demand for goods, and such prosperity, as to make it possible to carry out the most grandiose plans for expanding industry and creating



50,000,000 jobs for an indefinite time in the future.

I mean specifically that they underestimate the difficulties involved in making the transition from a war economy back to a peace economy.

Above all I mean that they are inadequate because they assume that the government will be able to finance the limitless expansion of industry everywhere and the creation of jobs for everyone.

Finally I mean that these plans are inadequate because they mistake the nature of the problem. They assume, without exception, that the problem to be solved is that of furnishing those who lose their war jobs and who are discharged from the army with enough money to support themselves while they are looking for jobs, and then furnishing them with a big enough income in the form of money after they have found them. This is the profoundest error of them all. For the solution of our post-war economic problem does not lie in the expansion of industry. If the expansion of industry and the creation of new jobs in industry could solve our problem, the

history of America would not be pock-marked with depressions every ten years.

For over a century we have been expanding industry and increasing the proportion of the population employed in industry.

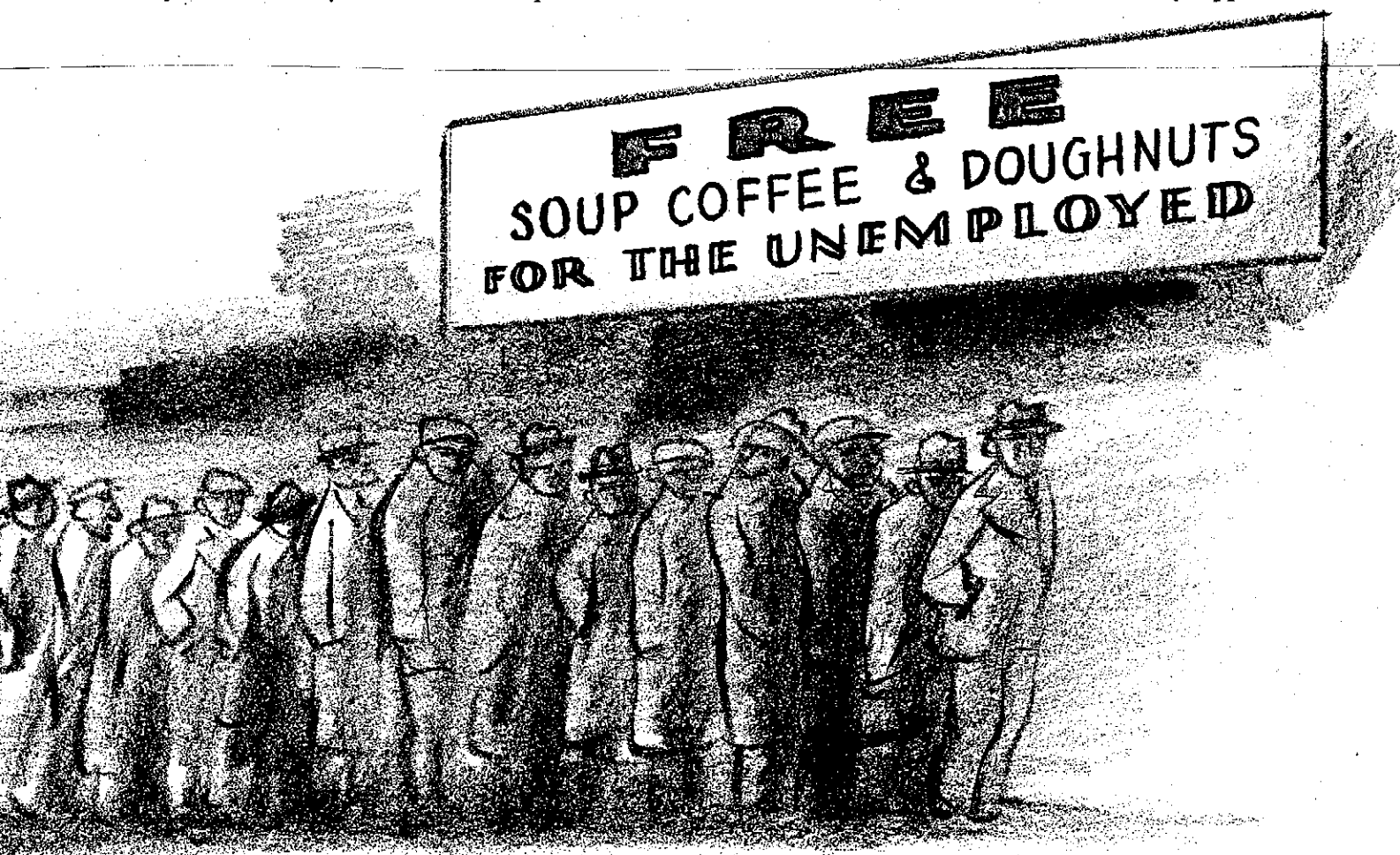
I am not being satirical.

I am not making a travesty of historical facts.

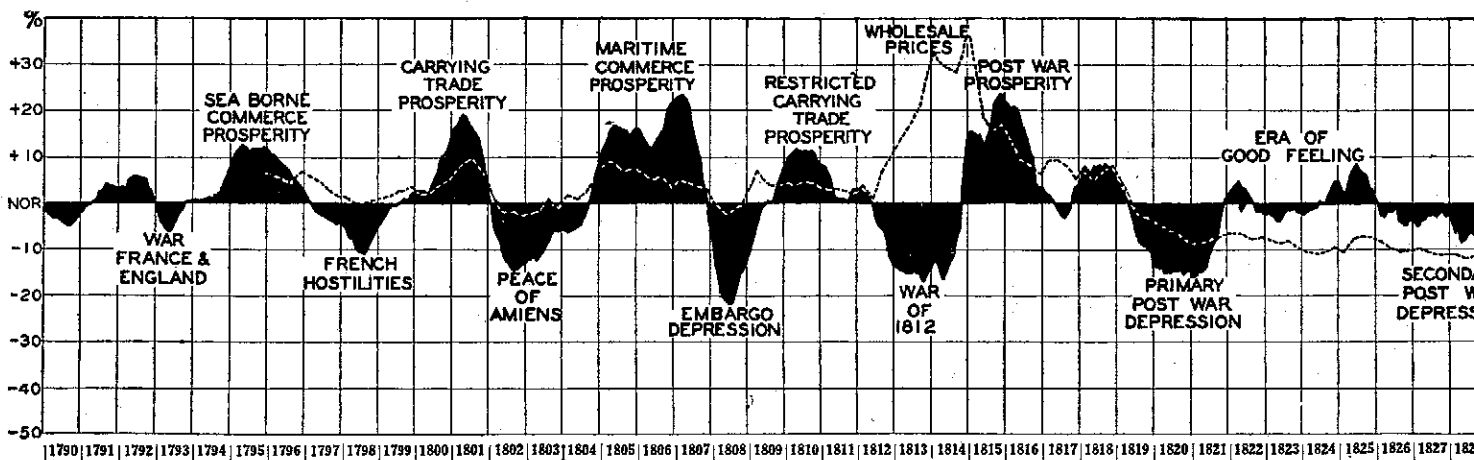
I am being merely realistic when I say that each such expansion of industry and each such increase in the proportion of the population depending upon a money-income has merely made the next collapse of our financial system a bigger and better collapse than the preceding one.

All these post-war blueprints should be dismissed by intelligent men and women for the simple reason that they all start out with the same assumption: *that Washington will be able to finance them.* Yet if inflation is inevitable and inescapable, every plan, which looks to Washington to finance it, is rendered worthless.

The only post-war plan which is adequate and realistic must start out with an exactly opposite



## BOOMS - AND - BUSTS OF AMERICAN



**THIS CHART SHOWS** in a striking manner the relationship of war booms to post-war depressions during the 155 years between 1790 and 1945. The central line represents normal business activity; the black areas below the normal represent periods of depression; the black areas above normal, periods of boom. Notice that the first war which ushered in a war-boom in the United States was that between France and England; it was followed by a post-war depression which began with the Peace of Amiens in 1802. Immediately after the war of 1812, we had our second war boom. It was followed in 1819 by a primary post-war depression; the secondary post-war depression created by it did not end till 1834.

assumption. It must start out with the assumption that Washington will *not* be required to finance it.

Let me make myself clear. I am not now proposing that those responsible for the fiscal policy which has brought us to our present threatening situation should make no further efforts to halt inflation — to “hold the line” as Franklin D. Roosevelt liked to say. I am merely saying that

however successful the government may be in holding the line during the war, it will be helpless after the war is over.

Our problem is what to do now. Our problem is how to prepare ourselves now for one of the worst social catastrophes which can afflict the people of a nation.

## is pessimism warranted?

I am painting a sombre and gloomy picture of the conditions with which we shall some day be confronted. I think you are justified in asking whether this is the truth, or merely the dyspeptic vision of a hopeless pessimist.

I wish it were.

I wish I could drive out the vision of the future with which I am haunted.

But I base my forecast of what is to happen upon precisely the same sort of economic analysis which led me to turn my back on Wall Street during the great boom which followed World War I; which led to my own family's “Flight from the City,”

and which led me to call the famous New Era of those days, “This Ugly Civilization.”

Because of the importance of deciding whether there is any basis for my gloomy prediction of things to come, I am going to ask you to bear with me while I make a brief analysis of some of the facts and figures upon which my forecast is based.

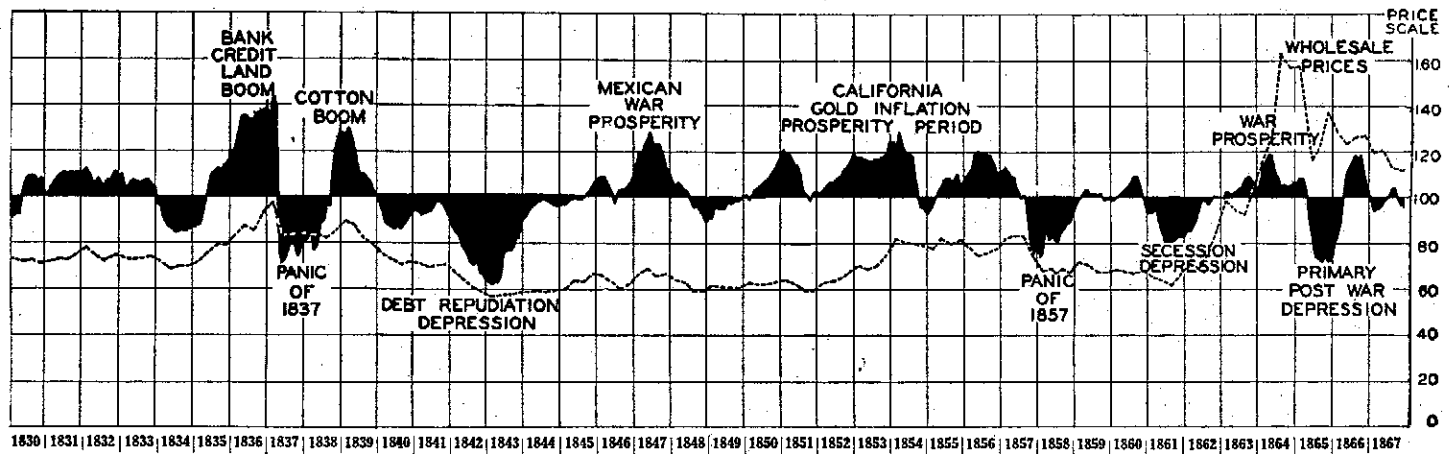
I am not a prophet.

I have no revelation.

I speak merely as an economist and student of history.

If I venture to prophecy, I prophecy as a realist and not as a mystic.

## BUSINESS DURING PAST 155 YEARS



IN 1846 WE HAD a boom caused by the Mexican War; in 1847 we had a post-war depression. In 1863 the Civil War boom began. The primary post-war depression caused by this boom began in 1865; the secondary post-war depression did not end till 1878.

### what six great fiscal episodes of american history show

I propose now to ask you to consider six great fiscal episodes in American history. Each of these episodes had six significant things in common:

During each of them *the nation fought a war.*

During each of them *the nation incurred annual deficits.*

During each of them *the national debt rose markedly.*

During each of them *the national currency rose sharply.*

Following each of them *the nation suffered a post-war depression.*

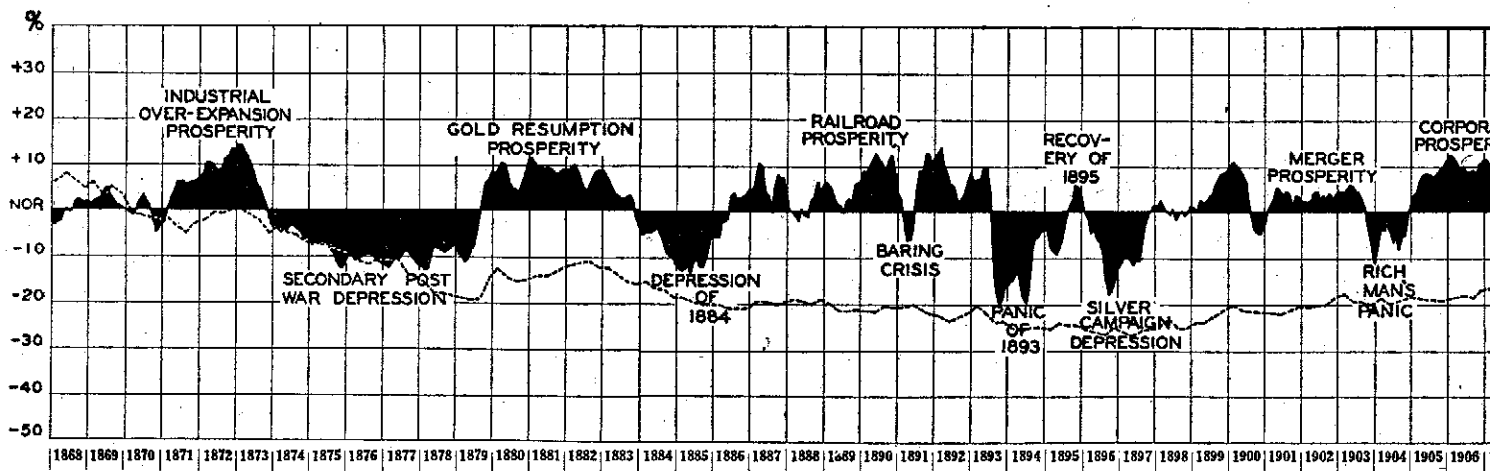
Only in one respect is one of them unique. Before every previous war in the history of the nation, our national government regularly enjoyed a surplus of income over expenditure. We began each of our wars, except the second World War, with the national treasury in relatively good condition for the financing of these great emergencies.

But before the war into which we were plunged by Pearl Harbor, the nation had no such surpluses. During the period between 1931 and 1941; during the ten years which ended when the present war-boom actually got under way, the national government has been regularly piling up staggering annual deficits. We began the present war in much worse shape financially than any previous war. We began it with a national debt roughly ten billion dollars larger than that which we had at the end of World War I. When the treacherous attack on Pearl Harbor stunned the nation and we found ourselves faced with the financing of the greatest war of all time, it is as though we had already been at war for ten years; as though we had just emerged from a war 40 per cent larger than the war we finished 25 years ago.

#### THE WAR OF 1812

Just about one hundred and thirty years ago we fought a little war with Great Britain. At that time our population consisted of less than ten million people. At the beginning of World War II, the population was nearly fourteen times as large. To make any fair comparison of the financial conditions created by the various wars in which the

## BOOMS - AND - BUSTS OF AMERICAN



**THE SPANISH-AMERICAN WAR** was such a short and small affair that it did not exert such a marked effect upon business activities as our other wars. Yet in 1899 it caused a boom, which was followed by a post-war recession in 1900, and a secondary recession in 1903.

United States has taken part, it is useless to make comparisons based upon the total amounts spent by the government. To make comparisons over such great spans of time mean anything, the amounts involved must be reduced to a common denominator. I propose to deal with them all in terms of what they mean to each man, woman and child in the population; in terms of what they involve on a per capita basis. This allows for the increase in the population, and distributes the increased amount spent for our more recent wars over the increased number of people available to pay for the cost of conducting them.

During the period in which we fought the War of 1812, the annual deficits of the government averaged only 32 cents for each man, woman and child. In spite of the fact that it was financing a war, its expenditures were only 32 cents greater per capita than its receipts from revenues of all kinds. The national debt piled up by these cumulative deficits upon each individual averaged only \$9.44. And the amount of money put in circulation upon the basis of this debt averaged only \$6.96 per individual.

We are so used to spending in the billions today that it is hard to realize how little we used to spend at one time, even for war. Yet that little, because of the debt structure it created, was sufficient to plunge us into a post-war depression.

## THE MEXICAN WAR

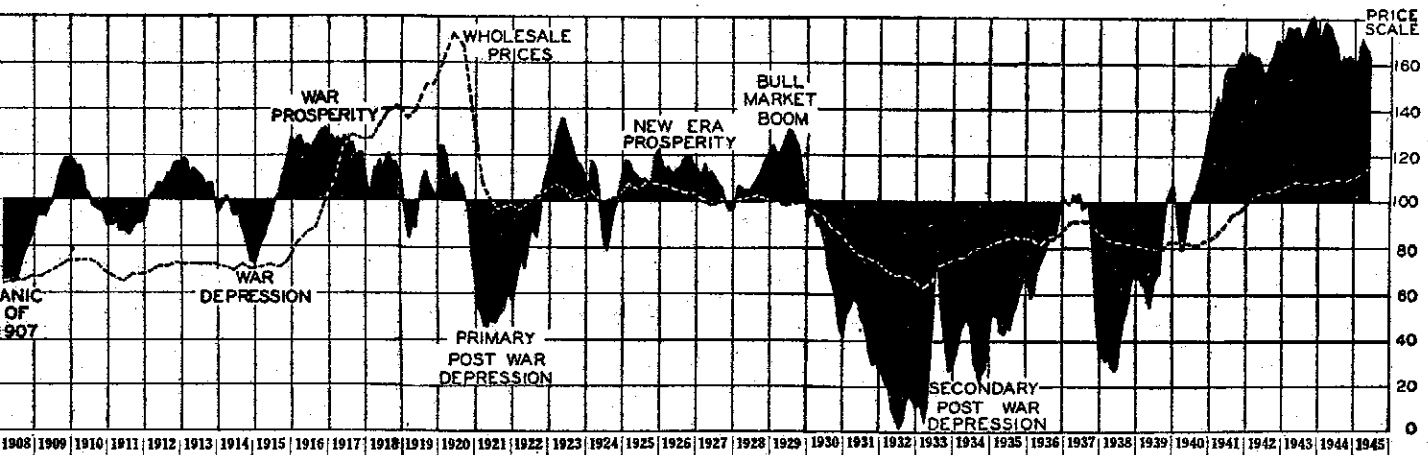
During the Mexican War the annual deficits were even smaller — they averaged only 23 cents per capita; the national debt averaged only \$2.74 per capita, and the amount of currency which was put into circulation upon the basis of this debt structure averaged only \$12.02 per capita. Yet again, because of our devotion to deficit financing, the war was able to plunge the nation into a post-war depression.

## THE CIVIL WAR

The Civil War, which lasted four years, was enormously more costly. The annual deficits of the government per individual rose to \$14.67. The national debt per individual shot up to \$77.07. And the amount of money put into circulation upon the basis of government debt increased to \$31.18 per individual. Thanks to the enormously greater debt structure created by the Civil War, the nation was visited with a correspondingly greater post-war depression.



# BUSINESS DURING PAST 155 YEARS



**THE BOOM CAUSED** by World War I began in 1915. The primary post-war depression caused by it began in 1920 and the secondary post-war depression in 1929. Notice how much bigger the boom than ever before in our history, and how much worse the depression which followed. Now look at the boom caused by the beginning of World War II in 1940 and note how much bigger it is than the boom which collapsed in 1929. The lesson of history is that the post-war depression which is coming will be correspondingly "bigger and better." (Chart prepared by Colonel Leonard P. Ayres; copyright by the Cleveland Trust Company, and used with their permission).

## THE SPANISH-AMERICAN WAR

The Spanish-American War was short. Yet short as it was, it involved an annual deficit of 84 cents per capita; it created a national debt of \$19.33 per capita; it led to a rise in money in circulation to \$27.28 per capita. Economical though it was in comparison with the Civil War, it nevertheless plunged us into a post-war depression. This was our first relatively modern war.

## WORLD WAR I

We come now to World War I. Financially, even though we were in it for only two years, it was incomparably more costly than all our previous wars put together. The annual deficit in the year 1917 was only \$8.35 per capita, but it shot up to \$127.33 per capita in 1919. The national debt, which was only \$28.57 per capita in 1917, was raised by this cumulative deficit to \$240.09 per capita in 1919. The currency in circulation by 1919 rose to \$45.95 per capita. The war was then followed by the worst post-war depression in our history.

## THE PERIOD BEFORE WORLD WAR II

I said a few minutes ago that World War II was unique. The period between 1931 and 1941 before the war is unique in our fiscal history. During these years we were permitting our federal public officials to spend our way out of the great depression which began in 1929. We were letting them try to solve the problem of unemployment through the Reconstruction Finance Corporation, through what they called "pump priming," through the WPA, and through endless other alphabetical agencies. We were once again turning to the creation of a huge government debt as a means of solving our national economic problems. During the ten years which ended with the beginning of World War II our annual deficits averaged \$26.75 each for each human being in the United States.

At the end of that time, the problem was still unsolved. It took the war-boom which we are presently enjoying to solve that problem.

At the end of those ten years of depression, we found ourselves confronted with the problem of financing World War II.

## the costs of World War II

We began real war expenditures in 1942 by incurring a deficit of a mere \$147.23 per capita. During the fiscal year of 1943 the deficit jumped to the towering total of \$416.71 per capita — almost twice as much in one year as that incurred during the three years of World War I. During the fiscal year of 1944, the deficit may reach the astronomical total of 67 billion dollars or \$486.11 for each man, woman and child in the United States.

What it will be the next year, and what it will be in each of the years ahead of us, including the years immediately following the war, no man can estimate accurately.

These recurring annual deficits — *which as things are now, can not be stopped* — are the source, the cause, and the determining factor in the growth of our ever-growing national debt. Recurring deficits are cumulative. They pile up one on top of another. If recurring deficits are inevitable, then a rise in the national debt is inevitable. Nothing we can do will avoid the effect, if the cause is continued.

We can raise taxes each year. We have been raising them. But no matter how high we raise them, we shall never be able to raise them high enough to catch up with this debt *unless we balance the national budget*.

I think the conclusion that the national debt is doomed to grow larger for many years to come is inescapable. There is only one way to stop it. That would be to end the procession of national deficits. But that is obviously impossible while the war lasts. And there is equally little prospect that the procession of deficits will end after the war is over. I base this largely upon the fact that not only the administration, but the people as a whole have come to accept the economic theories of Alvin Hansen and John Maynard Keynes. Nobody now seems to attach much importance to whether the government pays its way or falls behind.

The prospects are not cheering. The rise in the national debt during the war is unavoidable; the rise in the national debt during the next few years is equally certain, without regard to what party we place in power during the next election. I wish I could see signs in either the New Deal or the Republican Party of recognition of the threat to

democratic institutions in using public funds for the purpose of buying the electorate, bloc by bloc. But there is no sign in any political party of the courage which would be needed to deny subsidies to industry, subsidies to agriculture, subsidies to Latin-America, to Russia, to China, to anybody and every group whose good-will can be bought with public funds. Much less is there any prospect that any political party would deny the men who fought this war bonuses and pensions; to deny to the millions who will be demobilized by our war industries greater unemployment and social security payments; nor to the millions who will be clamoring for freedom from want, all over the world, food when they are hungry, doles to take care of them during illness, subsidies at the birth of their children, grants to pay for their funerals, and pensions to support them in old age.

Yet without some such miraculous political transformation, there is no hope that we shall ever balance the budget and reduce the national debt.

### NATIONAL DEFICITS, DEBT AND CIRCULATION OF MONEY PER CAPITA, 1811 to 1944

Period	Year	Annual Deficits	National Debt	Circulation
War of 1812	1811-1820	\$ .32	\$ 9.44	\$ 6.96
Mexican War	1841-1850	.23	2.74	12.02
Civil War	1861-1865	14.67	77.07	31.18
Spanish-American	1898-1899	.84	19.33	27.28
World War I.	1917	8.35	28.57	39.05
	1918	87.20	115.65	42.33
	1919	127.33	240.09	45.95
	1920	Surplus	228.33	51.38
Depression	1930	Surplus	131.49	36.74
	1931	7.27	135.37	38.85
	1932	23.54	155.93	45.57
New Deal	1933	17.88	179.21	45.49
	1934	24.97	213.65	42.44
	1935	29.73	225.07	43.66
	1936	38.68	261.20	48.60
	1937	25.25	281.82	49.88
	1938	11.16	285.43	49.62
World War II.	1939	27.51	308.34	53.72
	1940	28.34	325.22	59.48
Pearl Harbor	1941	33.15	367.68	72.39
	1942	147.23	541.15	92.35
	1943	416.71	1,015.19	131.37
	1944	415.00	1,483.00	166.66
	1945	395.00*	1,990.00*	196.66*

ALL FIGURES ARE IN DOLLARS AND CENTS PER CAPITA.

\* Estimated.



# the hidden national mortgage on every family

Compare the situation we face today with what actually happened twenty-five years ago during World War I. We began that war in 1916 with a relatively insignificant national debt of only \$11.96 per capita. But we began this war in 1941 — thanks to ten years of trying to prime the prosperity pump — with a national debt of the staggering sum of \$367.68 for each man, woman and child in the United States, beginning with the infant in the cradle and ending with the aged — too feeble to



contribute anything to the production of industry.

The high point of the national debt in World War I was only \$240.09 per capita in 1919. We began this war with a debt already fifty per cent greater than we had after finishing World War I. It has grown by leaps and bounds since we began.

We ended the year 1942 with a rise per capita to \$541.15.

We ended the present fiscal year (1943) with a rise to \$1,015.19 per capita.

We shall end the year 1944 with a debt estimated by the Treasury at \$1,519.66.

To visualize what the government in Washington alone will have to extract in the way of taxes from each family in the United States in order to carry the national debt and keep its bonds at par, we must bear in mind that it is already over \$4,000 per family; that this does not take into account the public debt of states, cities, counties and minor political sub-divisions; that it does not take into account the private debt (the mortgages on farms and homes, for instance), which the people also have to carry.

No matter how much the government in Washington takes from people in taxes nor how little the average family is permitted to keep out of its income for its own living expenses, every intelligent person knows that people will not be able to produce enough (above their own needs) to carry such a burden of debt. Yet all this is assuming that the debt will stay at around \$4,000 per family. But everybody who has the faintest interest in the fiscal activities of the government, knows that it will not.

*(Since this was said in 1943, the hidden national mortgage clamped around the neck of every family in the United States has grown nearly \$4,000, and is now \$7,960.00 per family.)*

## the pay-off — frantic flight from the dollar

What now is the end of this procession of deficits, of this growing national debt, and of the phenomena we are now to examine, the rise in the number of dollars in circulation?

During the War of 1812, we managed to get along, in spite of the strain to which it subjected us, with a circulation of only \$6.96 per capita. At the present time we have over \$130 in circulation for every man, woman and child in the country. We managed to get by during the peak of the war boom caused by World War I with \$51.38 in circulation per person. By the end of this year (1943), it may rise to over three times the amount we used in 1920.

It is difficult to make laymen understand what such a rise in circulation means.

On a clinical thermometer, the difference between a normal temperature of 98.6 degrees and a deadly fever of 106 degrees, is only  $7\frac{1}{2}$  per cent. Here is a rise already in our fiscal fever thermometer of around 300 per cent over the high point of the last war. Every day, every week, every month it rises, almost without exception, usually at an accelerating rate. If it continues to rise at the rate at which it is now rising, it will be about \$170 by the end of the next year (1944); it will be about \$210 by the end of 1945, and so on as long as the fiscal policy which is responsible for it continues.

(Mr. Borsodi made these predictions in September, 1943. The actual rise a year later at the end of the fiscal year was \$166.66 in comparison with his estimate of \$170.00; and on August 8, 1945, two years later, it was \$196.66 in comparison with his estimate of \$210.00 for the end of the year. It is exceedingly probable that before 1945 ends, his estimate will be exceeded.)

But these estimates which I have been making are based upon the assumption that it will rise only at its present rate. It may eventually begin to rise much faster.

One thing is certain, however: *the rise will end.*

Sometime within the next few years; sometime within the life of practically everybody in this room; in just what year no man can say because

no man knows when the war will end, *the rise will end because the dam will burst.*

\* \* \* \*

What do I mean when I say the dam will burst? I mean *flight from the dollar.*

As I see it, the dam will burst when people lose their faith in the dollar; when they begin frantically to try and convert their national bonds, their state and municipal bonds, their corporation bonds, their bank deposits, their life insurance policies, their credits of all kinds into tangible goods.

When conversion of bonds into dollars really gets under full sway, the rise in the circulation will take place at a rate which I have not taken into account in my estimates. At present, only about ten per cent of the bonds issued by the government is converted into dollars immediately; ninety per cent remains for the time being in the hands of the public and the vaults of banking institutions. When people begin to lose their confidence in the dollar, they will want to convert all their savings into dollars in order to have the money with which to buy tangible goods. When this ninety per cent now being held begins to be converted into currency, the dam will soon burst.

\* \* \* \*

At present the rise in circulation is largely due to hoarding of money by individuals with a pathetic faith in the dollar as a guarantee of future security. According to the New York Times (August 1, 1943), "Hoarding by individuals, citizens and refugees alike, is substantial. There are now said to be fewer unrented safe deposit boxes than at any time in the nation's history. And the boxes are by no means filled with war savings bonds, either. A large expansion of large denomination bills took place in recent years, and few have been returned to the banks. Now, the principal expansion is taking place in the smaller denomination bills." The hoarding of cash is therefore something being done by people of all kinds; by people who have great wealth, and can hoard \$10,000 bills, and by people who have little wealth, and can hoard only \$5 and \$10 bills.

But when general confidence in Washington's ability to keep back the rising flood begins to weaken, people will not hoard cash as they do now; they will frantically try to convert their cash, their bonds, their deposits *into goods*. Too late they will discover that the currency itself will buy them less and less as the inflation becomes worse and worse.

## the truth about inflation

The trouble with nearly all discussions of inflation is that they proceed on two assumptions neither of which is true.

The first is that the public can prevent inflation.

This assumption is false for three reasons: because inflation is already here; because what is popularly called runaway inflation is unavoidable; because *the public can do nothing* either to start or stop inflation.

The second assumption is that telling the truth about inflation will interfere with the financing of the war.

This assumption is based upon a theory which Adolf Hitler expounded at great length in "Mein Kampf," the book in which he told with amazing frankness the story of his life — the theory that people are fools; that they can be fooled into believing anything, and that they can continue to be fooled indefinitely.

The answer to this theory is to be found in Abraham Lincoln's famous statement that "You can fool some of the people all of the time, and all of the people some of the time, but you cannot fool all of the people all of the time."

Slowly, in spite of Hitler's theory, the people of the Axis nations are beginning to discover that they have been fooled; that it is not true that the democratic peoples are all degenerate; that they are without ideals, and without the courage to fight for them. The assumption that the American peo-

### FROM "THE SATURDAY EVENING POST"

On April 12, 1941, "The Saturday Evening Post," one of the most widely read weekly magazines in America, published a warning to the people by Harry Scherman entitled "Will We Have Inflation?" At the time that article was written, the national debt was only 43 billion dollars. *It is now just about six times as much and will be about seven times as much by the end of the next fiscal year.*

"There are six pipe-lines—they might be called—through which added money and checking deposits can be flooded into the reservoir of our total money supply . . . The first pipe-line is through the introduction of new gold into our money system . . . A second way our money supply has been increased has been through the purchase of silver . . . The President's personal power to devalue the gold dollar . . . is a third big pipe-line through which our money supply can be increased—to a degree few people appreciate . . . A fourth way to increase our money supply is by outright printing of dollar bills . . . Bank-credit inflation is . . . (the) fifth way of magnifying our money supply . . . Finally, there is a sixth—crucially important—way of increasing the nation's total money supply—increased borrowing of the Government from the commercial banks. This is similar—but more pernicious, because hidden—to the issuance of printing-press money . . . What, more precisely, is the picture of the future the Jeremiahs see? Remember that Jeremiah proved to be right . . . The long visioned economists who want to avert . . . inflation have their eyes on one thing: *the fact that the Federal debt is continuing to increase by leaps and bounds, with no end in sight . . . The threat of inflation rests in one fact only—that our Federal debt has increased without a stop for ten years, is continuing to increase faster than ever, and there is no visible end without a complete about-face in fiscal philosophy . . . Mislead by politicians who think we cannot be treated as adults . . . we, not our children, will pay the great bill for this war era . . . we will pay it, probably within a decade, by an inflation—with all the ominous disorder that will entail.*"

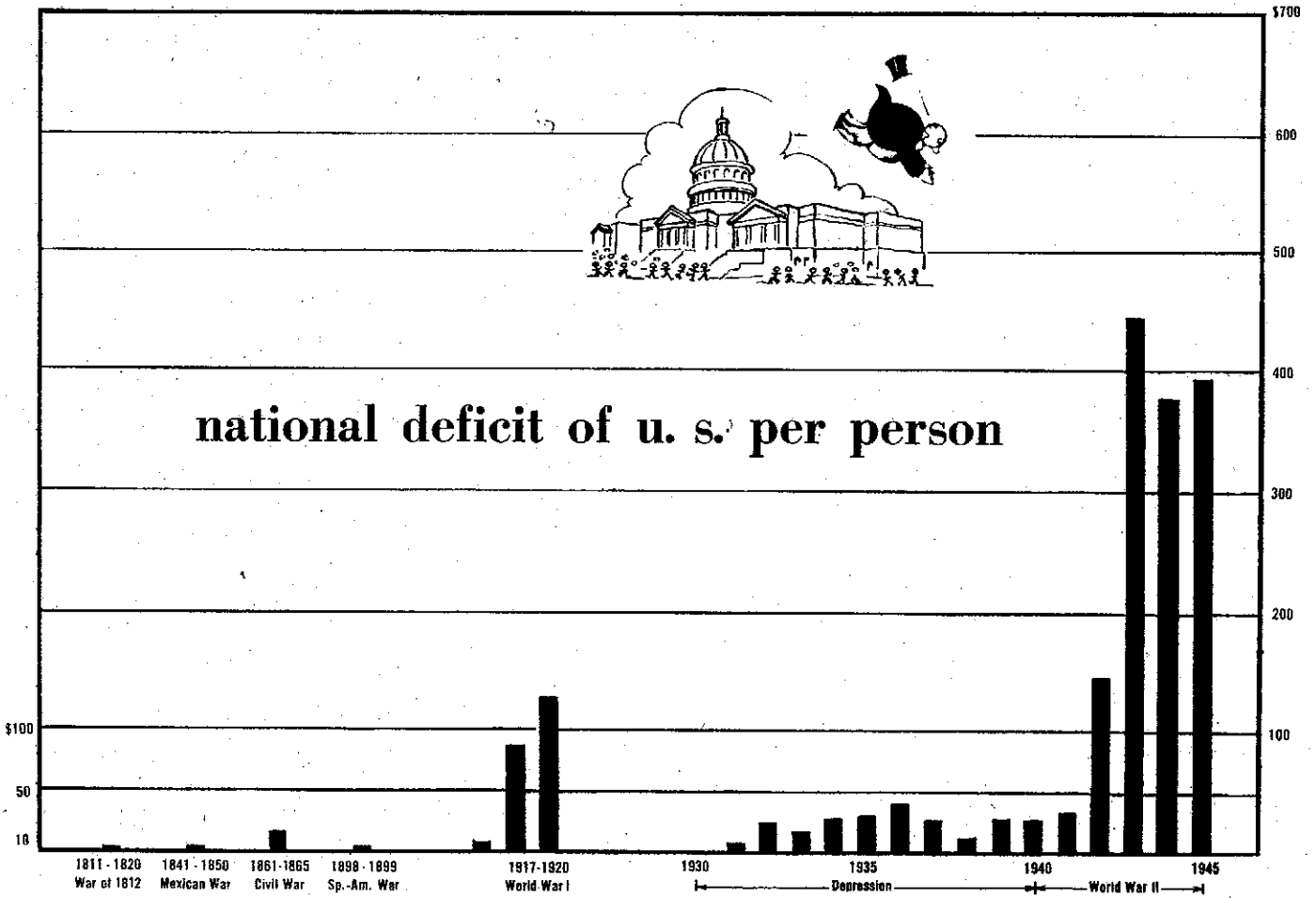
That was written nearly five years ago. There has been no change in the fiscal philosophy of the politicians in control in Washington. They are still placating one pressure bloc after another by voting money without regard to consequences. And they cannot stop doing it because refusing to vote for spending, is almost equivalent to committing political suicide.

ple will support the war only if they are fed romantic half-truths, is false. The war is not going to be won by feeding people baloney.

The people will be tempered to endure, and to make whatever sacrifices may be necessary to defend their liberties not by propaganda but by telling them the truth.

If they are cajoled into supporting the war under false pretenses, be sure that they will eventually find it out. We shall then find that even if we have won the war, we have lost the peace.

The time has come when, in discussing the question of inflation, the effort to "fool all the people all the time" should end.



**THE ANNUAL DEFICIT OF THE NATION** per person, as shown on the above chart, is the total amount by which taxation fails to cover the national government's expenditures, divided up by the number of men, women and children in the United States. When deficits in the incomes of individuals and corporations wipe out their capital, they go bankrupt. Governments, however, do not go bankrupt; they fill the gap caused by deficits by selling bonds and by inflating the currency. The length of the bars on the chart shows the comparative size of the deficits from 1812 to 1945. Note that not only have these deficits become enormously greater during the present and the first World War than during all our previous wars, but that beginning with the depression year of 1931 we have incurred deficits of war-time dimensions for the first time in our history during a period of peace.

*now too late  
to hold the line*

Three months ago the Office of War Information started a nation-wide campaign against inflation. It began by throwing dust in the eyes of the people by stating that Germany was carrying on a persistent radio campaign to cause inflation in the United States.

It asked for the cooperation of everybody — of farmers, of wage workers, of businessmen — on a seven-point program aimed at holding down prices. I find it difficult to comment upon the intellectual dishonesty of this seven-point program in temperate language. I can only account for the fact that this campaign has been widely supported, even by people who ought to know better, by the natural reluctance everybody feels at doing anything which goes counter to what Washington suggests at this time. But I think the time has come to stop imploring the public to cooperate in "holding the line."

On the whole, the public has been cooperating surprisingly well. I expect that it will continue to do so. But nothing which business, or agriculture, or labor, or the public generally will do, is adequate to the problem with which we are confronted.

The reason that the public can do nothing except help to postpone the ultimate catastrophe is *because every such inflation as that with which we are confronted is caused by the financial activities of the government itself.*

**government**

**responsibility**

**for inflation**

There is no single record in all history in which government policy and government practice did not initiate currency inflation.

When inflation begins to "get out of hand," it is not the people who are responsible (except indirectly to the extent to which they are responsible for the administration which is in office); but the public officials in charge of the nation's fiscal policy. If an administration makes it impossible for the people to reverse the mistaken policy in time, the administration's responsibility is only increased.

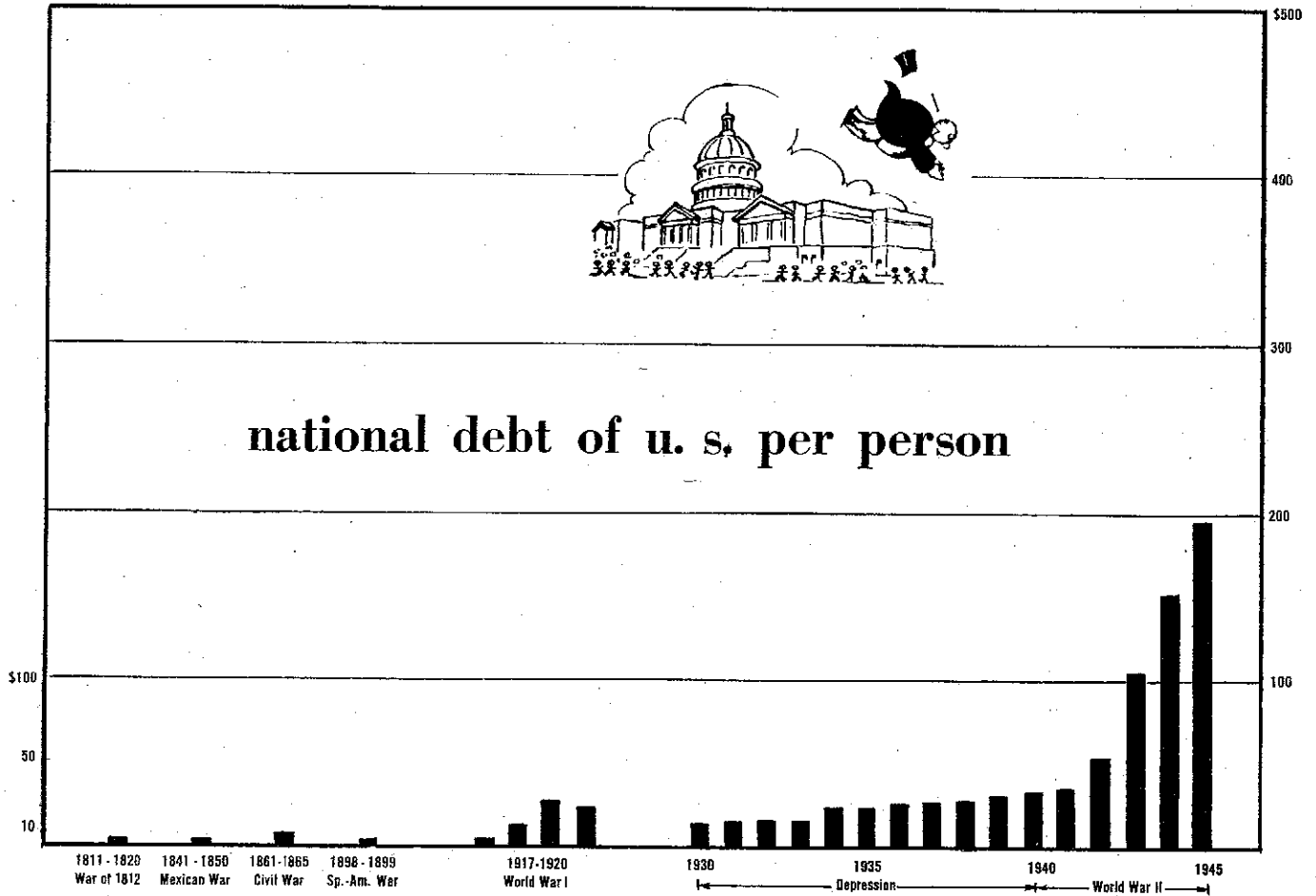
The fiscal policy adopted by the present administration in order to obtain the money for carrying on the war has, from the very beginning, made inflation inevitable. A short war or a small war (such as the Spanish-American War), might be financed on the basis of such a policy without a fiscal collapse. But a long war cannot be. The real tragedy in the present situation is that *it is now too late* to avoid the consequences of the erroneous plan originally adopted by the administration for financing the war.

Let me make myself clear.

I am a mere private in the ranks of what in England is called "his Majesty's Loyal Opposition." But my opposition is not to the administration's foreign policy (of which I mainly approve); nor to its military policy (as to which mere civilians are in no position to make intelligent judgment), but to its fiscal policy.

I am opposed to its taxation policy, its monetary policy, its financial policy. I consider its fiscal policy dishonorable and destructive from its beginning in 1933 when it abandoned gold, devalued the dollar, refused to honor the gold-clause in its solemn notes and bonds, and literally *stole* all the gold in the nation.

But more than that. I consider its policy for financing this war one which should inspire burning opposition in the heart of every patriotic American. It is my solemn conviction that financing the war by deliberate inflation is needlessly prolonging the conflict by reducing the production of war material; that it is going to double and treble and perhaps quadruple the final cost of the war, and that it is going to lose us the peace by rendering the nation impotent in the struggle which will come among the United Nations concerning the organization of the post-war world.



**THE ANNUAL NATIONAL DEBT** per person is the cumulative total of the deficits shown on the chart on page 30 divided up by the number of men, women and children in the United States. As the deficits pile up one on top of another, the national debt grows larger and larger. There are only three ways of "servicing the debt"—meeting the interest charges on it and paying off bonds when they are due—first, cutting down expenditures; second, increasing taxes, or third, inflating the currency. Cutting down government expenditures is politically impossible; politicians get into office and stay in office by the amounts which they appropriate, not those which they refuse to appropriate. Increasing taxes is equally unpopular; politicians try to pacify taxpayers by keeping them as low as possible. When the politicians in charge of our national affairs find themselves between the devil and the deep blue sea—between the necessity of either cutting down expenditures or raising taxes—they have never hesitated to try to get away with inflating the currency.

## wall street vs. washington

The fiscal policy of the administration of Presidents Harding, Coolidge and Hoover — of which Secretary of the Treasury Andrew Mellon was the center and the symbol — was bad enough. But while it bankrupted the various enterprises of the people of the nation by encouraging speculation from 1919 to 1929, it did not involve the solvency of the national government itself.

But the fiscal policy of the New Deal is infinitely worse. For it will end, not only in bankrupting people generally, but by bankrupting the national government itself. When the inflation for which it is responsible collapses; when the present war-boom collapses (which is seemingly bathing everybody in a pseudo-prosperity composed of constantly increasing quantities of paper-money and paper-securities), the period of deflation which will follow will leave the American people bankrupt indeed, for they will not have lost their faith in Wall Street; they will not only have lost their faith in Washington; they may even have lost their faith in themselves.



PHOTO BY UNDERWOOD &amp; UNDERWOOD

**LOOKING FOR WORK AT \$1 A WEEK AND "KEEP."** This photograph was taken during the last depression in New York City on October 31, 1930. It shows a group of unemployed men who were willing to do most anything for only \$1 a week and their "keep." Urbane Ledoux, a noted helper of the unemployed, was responsible for organizing this dramatic method of advertising for jobs. As a result the men were able to persuade some people, who would have been ashamed to offer such wages to them, to create jobs for them.

## the german inflation

There were a quarter of a million suicides in Germany following the famous inflation of the mark. Hitler and the National Socialists came into power ten years later on their bones and the despair of their survivors.

The German inflation started gradually, *as it has with us.*

In the beginning, when the mark was at par, it took four and one-fifth marks to equal a dollar. Gradually the mark declined in value until in the early post-war years it took 500 to equal one dollar. *Then the dam burst.* By December 1922, it took 10,000 marks to equal a dollar; by August 1923, ten million, and by November 1923, 130 billion.

Workers in Germany were originally paid by the month. They began to be paid by the week; then daily; then twice each day. To take home a

week's wages in marks would have required a wheelbarrow.

Life insurance policies, savings bank accounts, annuities, mortgages on real estate, private and government bonds, became virtually worthless.

A newspaper man told of paying three and a half billion marks for a dinner, and giving a billion marks as a tip to the waiter. City people gave away their jewelry, paintings, furniture, rugs, clothing — for food.

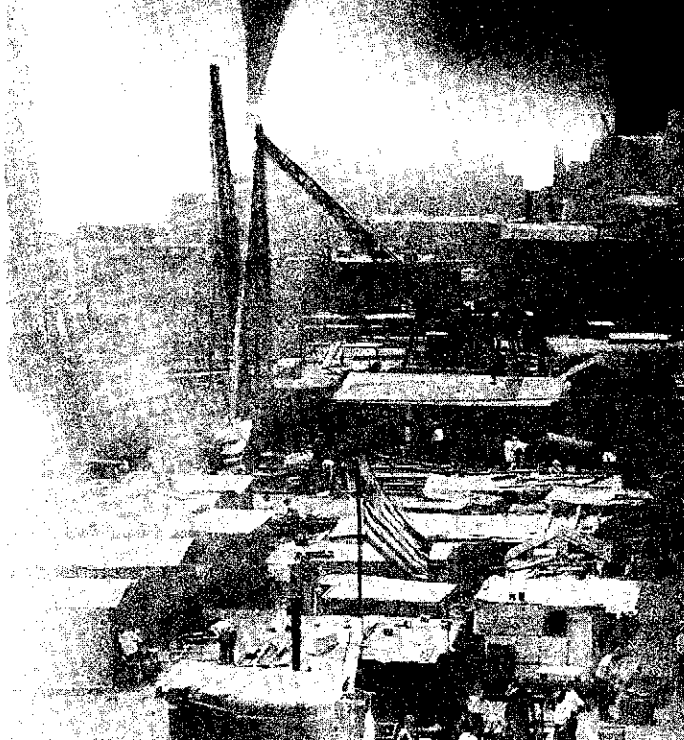
The promises by which men live and do business with each other became worthless. Moral values disappeared. Decent people lied, stole, even killed, to obtain possession of things of tangible value. Whole families would sneak out on thieving expeditions. A distinguished Canadian who witnessed the climax of the German inflation declared: "It means social and moral breakdowns, violent political swings to right and left — and then it becomes a mere question of who gets his hands on the ammunition first and starts shooting."

If you want the explanation of why the German people turned to Adolf Hitler, there you have it.

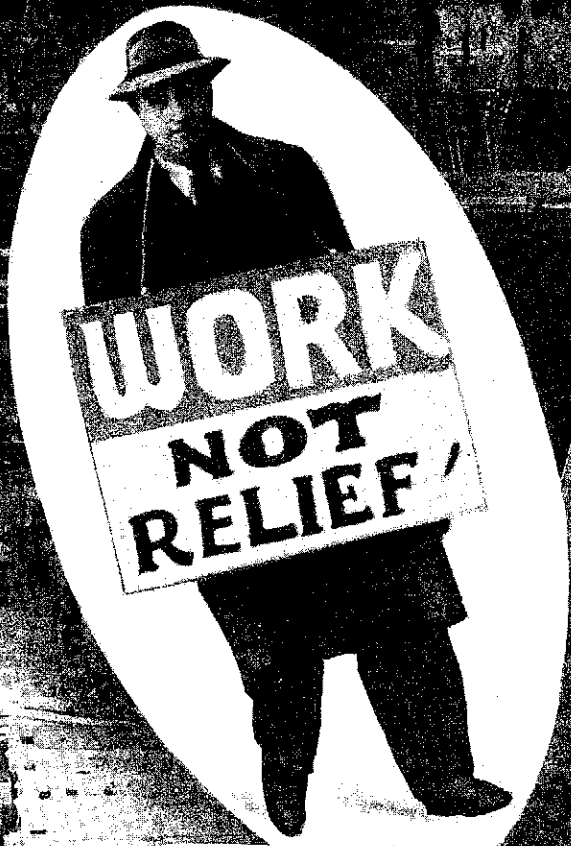


LOS ANGELES, CALIF., August 24, 1931. This photograph shows a crowd composed of depositors who could not get into one bank—the United States National Bank—the day after it was closed. In 1931, the year this photograph was taken, 2,294 banks all over the nation were closed down in a similar manner. Thousands of banks were closed down year after year. The high point came in 1933—the year Franklin D. Roosevelt became President, when 4,004 banks suspended with \$3,598-975,000 of their depositors' money.

NEW YORK CITY, O brightest ideas sponsored the metropolis was to tu men. The unemployed we apples, and permitted by where in the city. Duri and peddling is one of th PH



NEW YORK CITY, August 2, 1932. This photograph of a place the residents called Hardluck Town was described by the reporter as "a thriving and starving city of 200 jobless men with its own volunteer street cleaning brigade." Hardluck Town was one of hundreds of what were called Hoovervilles built in cities all over the country by homeless men and women out of boards, pieces of tin, and other odds and ends salvaged from dumps. Hoboes were not allowed in Hardluck Town; only men who could work and were willing to work when opportunity offered were permitted to make their homes there. This particular Hooverville was situated at 9th Street and the East River. A man by the name of Bill Smith from Texas, was the first settler and Mayor. The reporter said, "What he says goes." WIDE WORLD PHOTOS



NEW YORK CITY, Easter Sunday, 1939. This photograph of one of the pickets in a parade on Fifth Avenue was taken the year the war broke out in Europe and solved the problem of unemployment for the New Deal. After ten years of relief, desperate men were still clamoring for a solution of the problem of unemployment. The problem was temporarily solved by the war, but there is still no permanent solution. PHOTO BY UNDERWOOD & UNDERWOOD



These photographs, believe it or not, were taken the same United States in which we still live. Before the last depression, the industrial, financial and political leaders of the nation said what they are again saying today—there won't be another depression. They boasted of the

same matchless natural resources of which they boast today. The nation then had the same enterprising and hard working population. It had the same unrivalled mass-production industries. It even had epoch making new inventions like the radio, which were to guarantee the unlimited expansion of

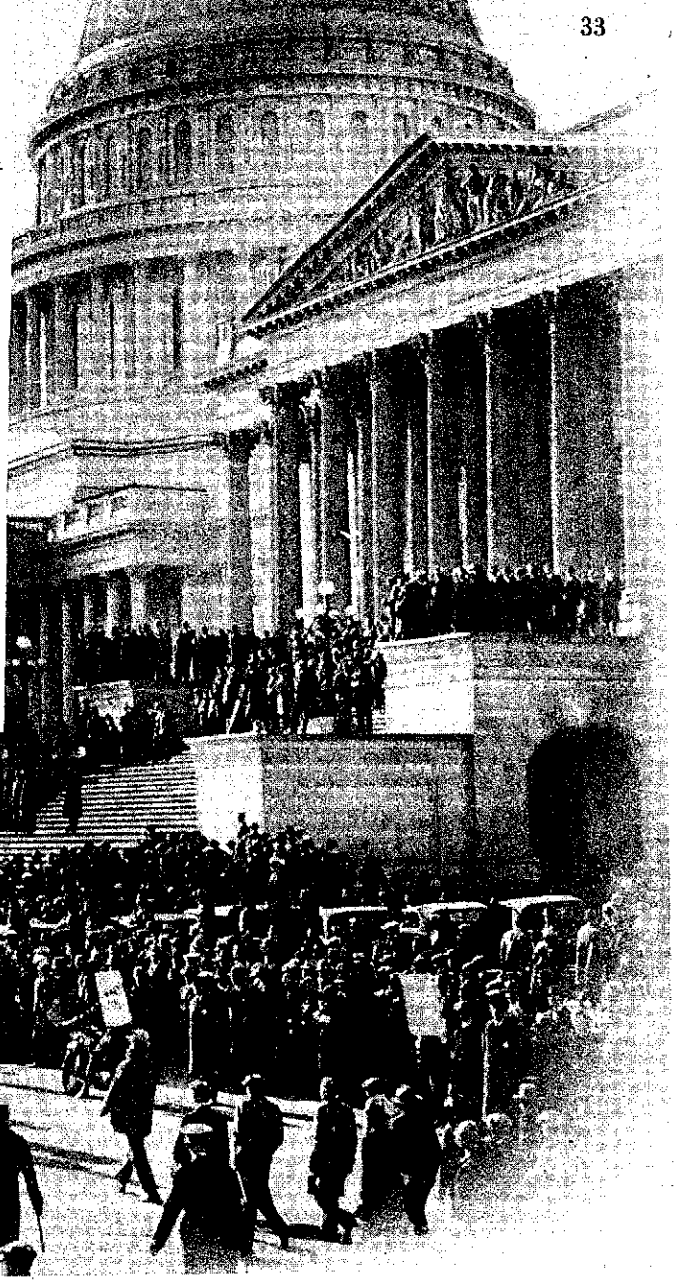


1930. One of the  
apple salesmen  
peddle them any-  
session, canvassing  
of the unemployed.  
OOD & UNDERWOOD



WASHINGTON, D. C.,  
December 7, 1931. This is  
a photograph of one of  
the armies of unemployed  
who marched to the capitol  
of the nation at various  
times during the depression.  
The members of this  
"Hunger Army" came from  
as far as the Middle West  
to present petitions to Con-  
gress urging unemployment  
insurance and other relief  
measures. At the  
Capitol, according to the  
reporter, the attempts of  
this particular army were  
"peacefully but firmly re-  
pulsed." This was not the  
case with all of them. In  
one instance, an army  
composed mainly of veter-  
ans of World War I,  
which set up a camp in  
Washington, was finally  
dispersed with policemen's  
clubs. Their camp was  
burned down. The photo  
shows a general view of  
the marchers passing the  
Capitol.

PHOTO BY  
UNDERWOOD & UNDERWOOD



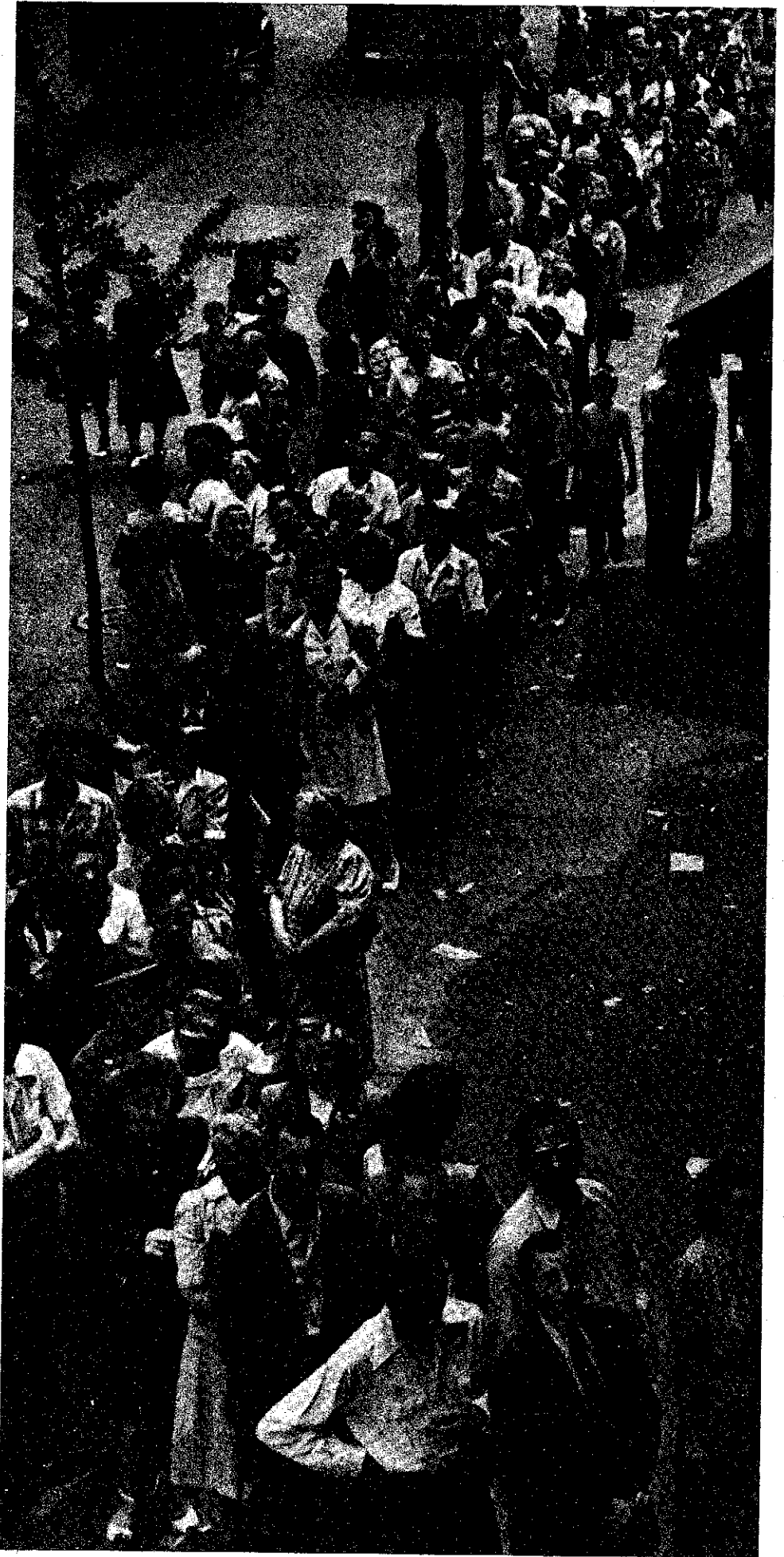
NEW YORK CITY, February 26, 1930. There were bread lines like this in every  
big city in the country. This photograph was taken early on a Sunday morning. It  
shows a famous screen star distributing cigarettes to unemployed men waiting in  
a line outside of the Madonna House on New York's East Side for a cup of coffee  
and rolls.

WIDE WORLD PHOTO



industry. Yet because it had a fiscal system tied to a colossal load of debt,  
the whole economy of the nation collapsed when the stock market in Wall  
Street collapsed. We still have a fiscal system tied to a colossal load of debt  
only now it is the national debt and not a commercial debt to which it is tied.

When Washington finally loses control of inflation, the economic life of the  
country will again collapse. All the lessons of history are the same: *first War*  
*then Inflation; finally Depression.*  
*It Will Happen Again!*



## THE "DISLOCATED"

Enormous numbers of men and women dislocated by the coming post-war collapse will be unemployed and unemployable the rest of their lives.

This photo shows a few of the newly jobless workers waiting their turn to get into the State Unemployment Insurance offices at Bridge Plaza Long Island City August 20, 1945.

PHOTO BY  
UNDERWOOD & UNDERWOOD

## bread lines are coming back again

I hope that we shall be able to avoid sinking to the depths to which the people of Austria, of Germany, and of Russia sank as the kroner, the mark, and the ruble became worthless. But when I say that the coming depression is going to make the worst years of the depression which began in 1929 seem like the recollection of a pleasant but exciting summer picnic, I mean precisely that.

At the worst of that depression (when every bank in the United States was closed by order of President Roosevelt), confidence in the dollar never wavered. Its value and purchasing power actually increased as the process of deflation continued.

But what we shall see in the next depression is not deflation, with nobody able to obtain enough dollars, but inflation, with everybody trying to get rid of their dollars, and being able to obtain less and less tangible goods of any value for them. We shall again have armies of the unemployed, bread lines, shanty towns and Hoovervilles, runs on the banks, long lists of bankruptcies, foreclosures, and suicides.

## savings will become worthless

Most of what we have saved individually, and what other people and institutions owe to us, will become almost worthless.

We have saved for our old age and for our dependents nearly 150 billion dollars in savings banks and life insurance companies. We have directly and indirectly invested around 200 billions of our savings in the national and public debt. To this must be added around 150 billion dollars in demand bank deposits, commercial debts, and loans on farms and homes. But at a very minimum *when the dollar goes, half the wealth of the people of the United States will be lost to those who have at present saved it.*

### FROM "THE NEW REPUBLIC"

On September 28, 1942, "The New Republic," perhaps the leading defender of the New Deal among literary magazines, published a forecast about post-war inflation written by E. R. Kennedy. Here is what it published at that time:

"... nobody is doing anything about the urgent problem of post-war inflation . . . It is almost impossible to prevent inflation in a democracy for the reason that the inflationists have all the votes . . . But, of course, all inflations have in them the seeds of their own destruction. For a year, perhaps for two years, after the war everything will be high, wide and handsome—at least, from a superficial point of view. But, from a strictly American point of view, the war will not solve any problems, except that the Japanese will not drop any more bombs on Pearl Harbor for a long time to come. Domestically, all the inherent weaknesses of our economy will remain unimpaired. Sooner or later, prices will break, production will decline, unemployment will mount and depression set in."

Finally, tens of millions of families, dependent upon the government for old-age pensions, for unemployment relief, for civil service salaries, will find that the dollars they will receive will not begin to buy a fraction of what they need in order to keep alive.

At every step of the deepening tragedy, distrust will grow. We shall distrust not only our banks and big businesses as we did in the last depression; we shall distrust our Congress, our President, our governments, state and national; what is worst of all, we shall distrust ourselves simply because we did not have the wit to face, in time, the necessity of preparing ourselves for what is inevitable and inescapable.

The situation we face today as we sit in this hall, and which everybody in America faces whether conscious of it or not, I have likened to people living in a valley in the shadow of a great dam.

Price control is that dam.

The flood of money in circulation is the sea of water building up pressure behind that dam.

Our problem, the politicians in Washington tell us, is how to strengthen that dam — how to make price control effective.

But this is obviously the wrong way in which to deal with the problem. The only right way to deal with it is *to stop piling up water behind the dam.* Unfortunately that is the one way in which we can no longer tackle the problem now. The time when it might have been corrected that way has gone by. The dam is doomed to burst. The only uncertainty in the matter is when it will burst and the torrent come down the valley sweeping everything before it.

# what shall we do about it now?

We Americans are a practical people. When we are faced with a problem, when we are confronted with an emergency, our first and instinctive reaction to it is to ask, "What can we do about it?"

## THE FUTURE OF THE DOLLAR

There are roughly two distinct patterns of action used by governments in dealing with the aftermath of their own deliberate inflation of the currency. One may be called repudiation, the other revaluation. Here are six instances of repudiation: (I) The Continentals (1775-1781) issued to finance our own Revolution by the Continental Congress; (II) the Assignats (1790-1796) issued by the French revolutionary government in place of taxes; (III) the Confederate Dollar (1861-1865) issued by the Confederate States to finance their revolt against the Union; (IV) the Russian ruble, repudiated by Communist Russia; (V) the German mark, repudiated by the German Republic, and (VI) the Austrian kronen, repudiated by the post-war government of Austria. These last three repudiations all were the aftermath of inflation during the first World War.

Here are ten instances of revaluation, all of them aftermaths of inflations caused directly or indirectly by World War I:

	Per centage of the Original Purchasing Power After Being Revalued:
Bulgaria .....	2
France .....	3
Greece .....	3
Italy .....	3
Brazil .....	11
Belgium .....	14
Australia .....	39
New Zealand .....	39
Great Britain .....	49
United States .....	59

Three repudiations and revaluations of our own dollar are worth recalling in more detail: (I) The money issued to finance our Revolution by the Continental Congress depreciated steadily until it became a synonym for worthlessness. The expression "Not worth a Continental," is sometimes still used by people who haven't the slightest idea of the origin of the phrase. By 1871 Continentals fell until 1,000 of them had only the purchasing power of one at the time of their original issue. (II) The dollars issued during the Civil War when legal tender notes, afterwards called "greenbacks," were authorized by the law of 1862 to finance the war. The total amount of greenbacks issued rose to \$2,855,909,808 but the highest amount in circulation at any one time was only \$449,338,902. Yet this issue caused a depreciation in the purchasing power of the dollar until it began to resemble the Revolutionary Continentals. In 1864 it took \$100 in greenbacks to purchase what originally cost only \$36. (III) The revaluation of the dollar by the administration of Franklin D. Roosevelt on February 1, 1934. After revaluation it took \$100 in currency to buy what formerly cost \$59.06.

The future of the dollar is in the hands of politicians in Washington who have already done exactly the same thing which formerly led to repudiation and revaluation—they have already deliberately chosen to finance the government by inflation rather than by taxation.

We are not fatalistic. It is not in our tradition to fold our hands and say, "It is the will of Allah." The fact that we have been increasingly taught not to act for ourselves but to turn to Washington to act for us, is a departure from the American tradition.

The real American tradition is self-help.

The true American tradition was expressed by Ralph Waldo Emerson long before the dawn of the New Deal in his essay on "Self-Reliance."

Self-reliance is not reliance upon Government. It is not reliance upon Big Business. Self-reliance is not even reliance upon Providence. Self-reliance means reliance upon what the individual himself plans; upon what families can do; upon what the neighborhood group of which the individual is a part can do without waiting for some one else to plan and for some one else to issue the orders for action.

The statement that we have all become so interdependent that we can do nothing to help ourselves, is not true. There are many things that we can still do for ourselves; many which thousands of American families who have not yet permitted themselves to be entirely enmeshed in the industrial leviathan are doing for themselves, and many more which groups of individuals can cooperate to do if they but will to do so. When the complicated industrial and financial system upon which most people today rely, breaks down, it is an abdication of our dignity as human beings to merely wait for the very men who built the system and who are responsible for its collapse, to save us.

As I see it, we Americans are confronted not only with a financial but a social catastrophe. The storm has not yet struck us, but it is possible to see it coming. Not only is the sky dark with black clouds, but we can hear the wind rising, and far on the horizon we can see the funnel-shaped cloud that presages the tornado. Because it is in the American spirit to ask, "What can we do about it now?" I propose to answer this question. I shall ask only that, in considering the five suggestions which I shall make, you keep constantly before you the three premises upon which they are based:

First. That the fiscal collapse of our national government after the war is inevitable and inescapable;

Second. That after we have defeated not only Italy and Germany, but also Japan, we shall be confronted with nation-wide unemployment;

And third, that after the war we shall be confronted with world-wide business depression.

I add one word of caution: These three things are inevitable, but they may not put in their appearance immediately after the war ends. There may even be a post-war boom. But while the time when they will put in their appearance is uncertain, they are inescapable.

## first premise: inflation and national bankruptcy

My first premise may be summed up as follows:

(a) The fiscal collapse of our national government in Washington after the war is over is now inevitable and inescapable.

(b) This fiscal collapse will ultimately take the form of currency inflation. We shall have "run-away inflation," as it is popularly called, as soon as patriotic support of the war no longer checks the manner in which self-interest prompts the people to deal with their money and their government bonds.

(c) This inflation will result in the bankruptcy of practically every bank, insurance company and other financial institution, and every business enterprise or private person whose solvency will have become dependent upon the maintenance of government bonds or the national currency at par.

(d) By reason of the decline in the purchasing power of the currency, all the millions of people whom the government will attempt to support through mustering-out bonuses, pensions, social security, farm subsidies, and unemployment relief, will find it progressively less and less possible to live upon the paper money they will receive. The more Washington tries to deal with the problem of inflation by expanding public relief; the more it ventures into public works and into a bigger and better national and global WPA; in short, the more humanitarian it tries to be, the worse will be the

### WHAT GUNNAR MYRDAL OF SWEDEN PREDICTS:

Gunnar Myrdal is one of the leading economists and sociologists of the world. He is the author of many books and is thoroughly familiar with American and world economic conditions. He was invited by the Carnegie Corporation of New York to make a survey of the negro problem in America, and his monumental study of this question was published in two volumes in 1943. In an address made on March 9, 1944, to the Society of Political Economy of Stockholm, Sweden, six months after Ralph Borsodi's Aldine Club address, he made the following forecast of what will happen in America after the war ended:

*After . . . the . . . war . . . There will undoubtedly be mass unemployment in large regions. Severe conflicts in the labor market do not seem impossible. It is, however, possible that there will be a relatively widespread sellers' market which will prevent an immediate, general depression. It is likely that within a period of, let us say, from one-half to three years, the trend will change into a crisis. In the sphere of agriculture it is to be expected that a continued scarcity of most agricultural products, with a consequent preservation of high prices, will prevail for perhaps a couple of years after the end of the European war. But from then on a crisis of overproduction will threaten.*

fiscal collapse with which everybody will be confronted.

(e) Eventually a new dollar will be issued by the government. It is possible that the present dollar will be entirely repudiated but it is more probable that it will be revalued at something between 10 cents and 30 cents on the dollar, depending upon the length of the war and the length of time the present fiscal policy in financing the government is continued.

## second premise: nation-wide post-war unemployment

(a) As soon as victory not only over Italy and Germany, but also Japan, brings the end of the war into sight, the market for the goods now being produced in the United States — mostly supplies and materiel of war — by nearly all of our heavy industries and by more than half of agriculture and light industry, will disappear. About half of the workers now employed outside of the government service — approximately 20,000,000 men and women — will lose their jobs.

(b) After the war — no matter how large a standing army nor how large a navy it may be decided to maintain to assure the disarmament of the aggressor nations — approximately 10,000,000 men now in the armed services of the nation will have to be demobilized and will therefore also lose the "job" in which they are now employed.

(c) With the end of the war effort, approximately 3,000,000 civilian employees of the national government now engaged to deal with the emergencies created by the war will have to be discharged. They too will join the ranks of those whose jobs have been destroyed by the coming of peace.

In sum, the inevitable demobilization of those whose employment is dependent upon the continuance of a war economy will confront Americans with the problem of supporting approximately 33,000,000 workless men and women for varying periods ranging from a matter of months to the balance of their lives. Most of them, no doubt, will eventually solve the problem of supporting themselves, but enormous numbers of them will prove permanent war casualties and will be unemployed and unemployable until they die.

## third premise: world-wide business depression

(a) Because of inflation, because of unemployment, because of world-wide destruction of wealth and bankruptcy, some time after the war is over, Americans will be confronted with the worst depression in the history of the modern world.

(b) Nothing that we can do now will enable us to avoid this depression. This world-wide catastrophe is inevitable and inescapable.

(c) This depression, unlike the Great Depression which began in October, 1929 with the collapse of prices on the Stock Exchange, will not be precipitated by the bankruptcy of Wall Street, but by the bankruptcy of Washington.

(d) This depression may, but also may not, be preceded by the usual post-war boom. In the early

### HOW LOW WILL U. S. BONDS DROP ?

In 1915, on the eve of our entry into the First World War, the national debt of the United States was only \$2,975,619,000. The war caused it to increase just about nine-fold to \$25,482,034,000 in 1919. By May, 1920, war bonds bought by the public at \$100 dropped as low as \$81. The people who were forced to sell their bonds during the primary post-war depression of World War I, lost \$19 out of every \$100 they had put into bonds. Let us compare this situation with the situation of the war bonds issued to finance World War II.

In 1938, when the Second World War began, we had a national debt of \$37,167,487,000. This means that before we began our war expenditures, we already had a debt thirteen times as large as we had at beginning of World War I and nearly twice as large as the total debt after we had finished it. By the end of the present fiscal year, we shall have a national debt of approximately \$300,000,000,000, and we shall be increasing that debt every year we fail to balance the national budget.

Now if a national debt of approximately one-third of the annual national income caused government bonds to drop to 81 in 1920, what will happen to government bonds when the national debt is from two to three times the total annual income of all the people of the nation? The answer is obvious: government bonds will drop much lower than they did in 1920. Not only will those who are forced to sell them at the market lose perhaps the largest part of the money originally invested in them, but the dollars which they will receive will have only a fraction of the purchasing power of the dollars put into them.

stages of all inflations—cost inflations, credit inflations, and currency inflations—business booms are usual. There will, it is true, be an enormous pent-up demand for consumption goods, but the time needed in order to effect a reorganization of not only American but of world industry, is so great that it will no more prevent this depression than a similar pent-up demand was able to prevent the Great Depression of the 1930's.

(e) It is impossible to fix precisely the time when this depression will come. No man knows just how long the war will last. No man knows how many shrewd expedients may be developed for postponing the day of reckoning. (It must not be forgotten that Harding, Coolidge, Hoover and Mellon supported the stock market in its speculative orgies for ten years, and kept putting off the final day of judgment for a full decade.) The depression may not come immediately after a general armistice or the signing of a treaty of peace. It may come before that, as soon as the market for war-goods begins to shrink; it may come after the war as a result of the unloading of enormous volumes of government bonds, and the collapse of the market for them; it may not come until after the usual post-war boom; *it may not even come until some years after the war is over.* But while it is difficult to forecast just when it will come, it



is not impossible to be positive about the fact that the collapse will come. Because of the great magnitude and length of time of this war, because of the greater destruction of wealth and means of production, and because of the greater strains and stresses to which not only the Treasury, but all our economic and financial institutions are being subjected by this world war than by World War I, I believe that it will be less possible to stave off the time of collapse after World War II than was the case after World War I. All that I am assuming is that it will come, and that intelligent men and

women, and particularly those in positions of leadership and occupying responsible positions in American enterprises, should prepare now, while there is still time, for the situation which will confront them when this depression does come.

\* \* \*

The five-fold plan which I am suggesting, dealing with what individuals, groups and communities can do now to prepare themselves for the inevitable and to cushion the shock of the collapse both for themselves and for the public as a whole, is as follows:

## I. decentralization

### DON'T LOOK TO WASHINGTON—LOOK TO YOURSELF!

My first suggestion is general and philosophical rather than specific and technical. It can be reduced to a single word: *decentralization*. We have come to our present pass; we are headed for far worse conditions; we shall finally come to catastrophe because of centralization—because of the centralization of industry, the centralization of population, the centralization of ownership, the centralization of control, the centralization of planning and educating, and, above all, the centralization of government. The cure for over-centralization, however, is not to be found in still more centralization; the escape from the menace of over-centralization is decentralization.

Let me put my first suggestion more positively and more personally into two words: *Look within*. Stop looking for help without. Particularly, stop

looking to Washington for salvation. Let me repeat this: let us look within; let each one of us equip ourselves now with the spiritual and technical resources which each of us will need if we are to survive, support those dependent upon us, maintain our sanity when the world collapses about us, and each of us work toward some degree of security, prosperity and happiness. Let us stop frantically looking for some leader, some movement, some political program, to save the country for us. Let us look to ourselves; look to our own families and homesteads; look to our own friends and our own neighbors; look to the people and the resources of our own communities. Let us stop looking to Washington for leadership in everything. Let us stop expecting the elaborate plans which Washington has prepared to save us when the crash finally comes.

## II. land and home

### THE ONLY WAY TO A CERTAIN JOB FOR EVERYBODY

My second suggestion is that we deal with the problem of unemployment by a nation-wide back-to-the-land movement.

(a) The first essential in living is not, as we have come to think, a job; but the opportunity to produce for ourselves the minimum essentials of living — sufficient food, sufficient shelter, sufficient water,

fuel and clothing to maintain health. The wise men who wrote the Declaration of Independence were not foolish enough to say that governments could make men happy and guarantee them freedom from want; they said that governments were instituted in order to furnish men life, liberty and the opportunity to engage, as they phrased it, in the "pursuit of happiness."

(b) This requirement can be met, not by waiting for someone sometime in Washington or elsewhere to give us a job (jobs will be non-existent when the crash comes for fully half of those who will be clamoring for them), but by obtaining land — land upon which we can individually raise food and livestock, erect shelters and houses, cut wood for fuel, and produce other necessities for ourselves. It is not true that men are entitled to jobs. No man is entitled to say, "I have a natural right to employment, and to employment at the sort of work which I like or for which I happened to have been trained." No man is born with the right to demand of others employment throughout life as a book-keeper, as an actor, as a salesman. But every man is born with the right to work for himself on whatever amount of land may be necessary in order to support himself and his family. Every law which bars this God-given right of access to land, violates the rights of man.

(c) In order to obtain access to land when the problem of unemployment develops, we should buy either a farm or subsistence homestead now, or organize a self-liquidating homestead association now so that we obtain it, as a member of such a co-operative, when we will need it. Some of us may believe in changing the existing system of speculative land-tenure so that land now held out of use recreates the American frontier and once again makes America the land of opportunity. But we cannot afford now to wait until the nation as a whole can be educated to the justice of such a basic reform.

If self-liquidating homestead associations are organized now, land may be obtained immediately in large tracts at low prices per acre and the members will be able either to pay for it outright, or at least to put their savings into it as they accumulate them.

Every American is entitled to an opportunity to establish such a homestead. Opportunity is in the real American tradition, not charity. No real American wants charity. Every soldier and sailor who has been made to risk his life for his country should have the opportunity to establish such a homestead. He should not only be a citizen but also a landholder with a stake in the nation which he fought to defend.

(e) Plans for the sub-division of these large tracts and for their use primarily for subsistence and general family farming should be made now, and the members who do not already know how to live in the country should start their education

in gardening and productive country life now.

(f) Homestead associations organized now by and for men in our armed services would be able to obtain land by gifts from generous people who are not using land which they may own.

(g) Many towns, counties and states have abandoned and tax-defaulted lands which they could transfer to such associations. The resettlement of these lands would increase the population, increase the production of wealth, increase the trade, and thus raise the tax-income of communities wise enough to make such use of this land.

(h) In order to avoid every semblance of charity and to make the homestead associations self-liquidating, land assessments or ground rents sufficient to meet all carrying costs should be collected from their members by each association.

(i) In order to avoid the misuse of the land for speculative purposes, membership in such a homestead association should carry no right to speculative re-sale; if a member desires to abandon his homestead, it must be made available to some other person who has an equal right to such an opportunity, and the price which he may ask for any improvements he has placed on the land must be fixed by arbitration.

(j) In order to insure that the homesteaders shall be always able to meet their land assessments, the ground rents should be payable in either money or in kind.

(k) In order to avoid fining the members of such associations for the improvements which they make, no taxes should be levied by towns, counties or states upon improvements made upon the land which the homesteaders have thus voluntarily removed from speculation.

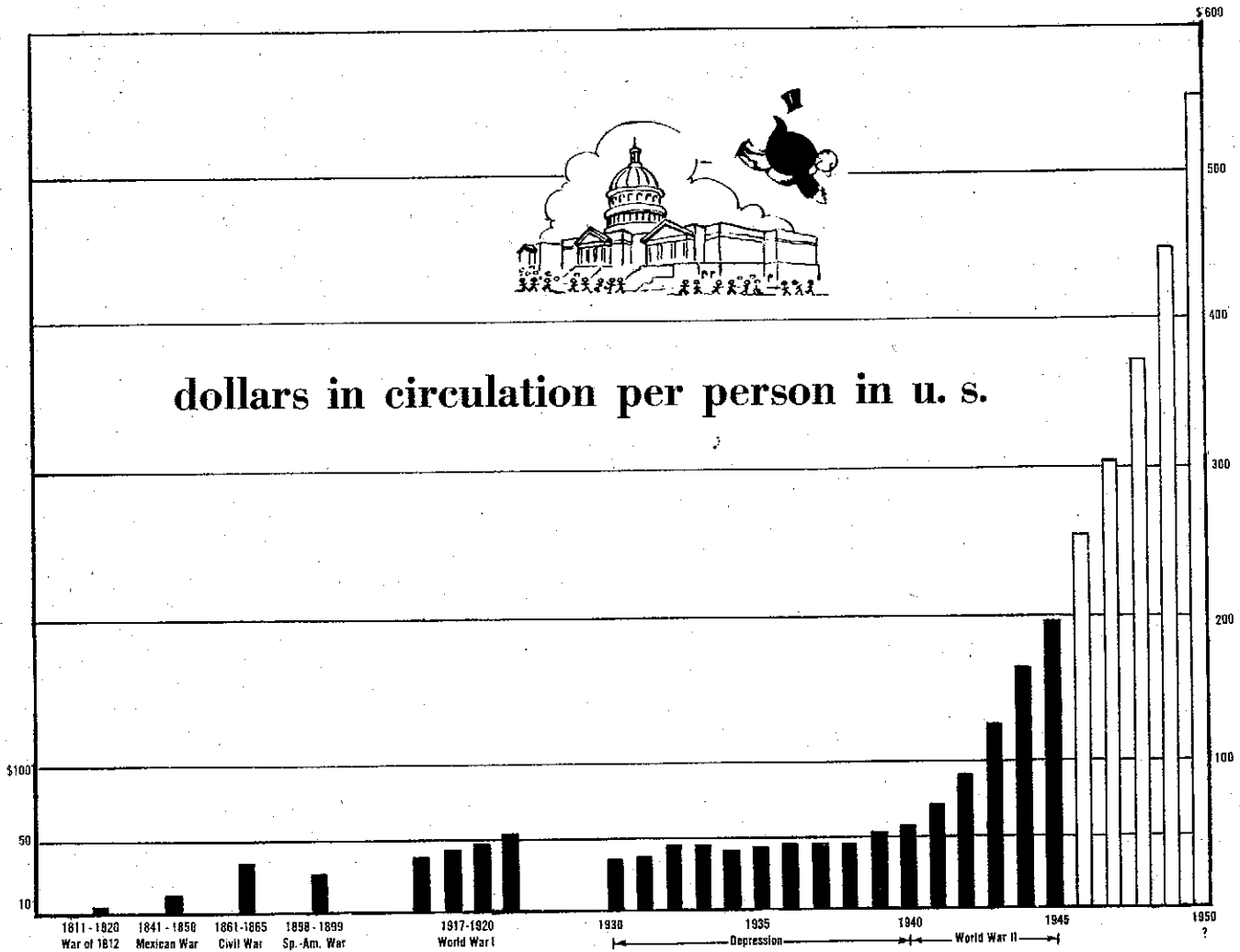
(l) Finally, in order to make possible the incorporation of such homestead associations and the tax-exemption of their improvements, legislation amending the membership, non-profit and co-operative corporation laws of the several states should be enacted now.

\* See Bulletin Number 3, "How to Economize in Buying Land for Your Home," published by the Research Division of the School of Living, Suffern, N. Y.

The followers of Henry George should study, "Enclaves of Economic Rent," published by the late Fiske Warren, Harvard, Mass., and ask themselves what it would mean to land reform if there were hundreds and thousands of such homestead associations all over the country, each comprising a group with an actual stake in the abolition of land speculation. An isolated "single tax" colony is an anachronism, but an *expanding* enclavial movement would furnish a basis for land reform similar to that which the co-operative land and building movement furnishes in Denmark.

The importance of preliminary planning and of continuous education is shown by the history of the homestead projects launched under government auspices by the Subsistence Homestead Division (now incorporated in the Farm Security Administration of the U. S. Department of Agriculture). See "A Place on Earth—A Critical Appraisal of Subsistence Homesteads," by Russell Lord and Paul H. Johnstone, published by the Bureau of Agricultural Economics, Department of Agriculture, Washington, 1942.





**THE CURRENCY IN CIRCULATION** per person is the amount of money of all kinds which the government has issued divided up by the number of men, women and children in the United States. If the amount of currency issued is just sufficient for the business activities of the nation, prices are stable; the cost of living and the cost of production neither rises nor falls. At present, as shown by the chart, the amount of currency in circulation is fantastically higher than ever before. It is now nearing \$28,000,000,000.00, which is four times as much as the circulation at the peak of the inflation caused by World War I; five times the amount in circulation before the great depression began in 1929, and ten times as much as in circulation at the end of the Spanish-American war just about fifty years ago. As the amount of circulation rises, prices and costs rise. The government now tries to conceal the fact that it is itself responsible for these rising costs and rising prices by "controlling prices." But every day, every week, every month, the Federal Reserve system has to issue more and more currency to cover the cashing of bonds and the withdrawal of money from banks. No matter how much Washington tries to control prices, some day the whole system must break down because agriculture and industry will finally be forced to stop selling goods at prices lower than costs of production.

### III. money

#### PREPARE AN EMERGENCY SCRIP NOW!

My third suggestion is that we deal with the problem of runaway inflation when it comes not by passively enduring the slow agony of waiting for the dollar to finally reach bottom, but by preparing now to issue an emergency Scrip.

(a) No transition to a high standard peace economy can take place without a stable medium of exchange. No

revival of trade and no modern standard of living is possible without it. Not only is the dollar now unreliable, and not only will it become utterly unreliable when the post-war crisis develops, but government-issued currencies with almost no exception have always been unreliable. Government handling of money furnishes us with the most malodorous pages in the chronicles and history of nations. For this reason, if a reliable money is to be available when the crisis comes, it must be locally issued.

and plans for issuing it must now be made by trained men competent to see that it is properly retired. Non-commercial, Scrip Unions\* should be organized now for the purpose of issuing this money. These Scrip Unions should now be equipped with the Scrip in all denominations, Scrip stamps, printed forms, and bookkeeping records which will be needed to control the emergency money issued. Volunteers should be trained to operate these Scrip Unions before the emergency arises, just as we are now training volunteers for civilian defense. It is futile to try to improvise a fire department during a fire. Common sense dictates that fire departments should be organized and equipped and firemen trained before we are confronted with a holocaust, and kept in readiness for an emergency, even if by good fortune no fire should ever occur.

(b) In order to insure the stability of this Scrip, the plan must provide for both its proper issuance and its automatic retirement. It must come into existence only in order to facilitate exchange; the moment a trade or transaction is finally consummated, the Scrip must go out of existence.

(c) To insure its stability, the Scrip therefore should be issued only against the deposit in public warehouses of staple commodities or staple merchandise. It should not be issued to any man or any enterprise making such deposits to an amount exceeding two-thirds of the primary market value of staple commodities such as wheat and corn, coal and lumber, or one-half the wholesale value of staple merchandise such as shoes, clothing and furniture. The value of the goods brought to market should always be greatly in excess of the amount of Scrip issued against it.

(d) As soon as the farmers and factory-owners, the wholesalers and retailers who have deposited goods in public warehouses, have found purchasers for it, they may retrieve it by returning to the Scrip Union an amount of Scrip equal to that issued against it plus the costs of warehousing. Scrip so returned must be entirely retired from circulation; no Scrip may be permitted to circulate which is not backed by deposits of approximately twice its value in goods. As the volume of Scrip issued will be equal to over half of the value of the goods produced, there will be an ample supply of Scrip in circulation with which the general public may purchase the supplies and goods available and producers pay for raw materials and pay the wages and salaries of those employed by them.

The par value of the Scrip can be fixed by valuing the commodities against which it is issued at average wholesale prices during a period long before the war—perhaps 1911-1914.

(c) The Scrip Unions should have full authority to sell at public auction all goods deposited with them after

\*The nearest co-operative model for these Scrip Union is that furnished by bank clearing houses. Central and Reserve Banks, which now have the legal right and monopoly right to the issue of legal tender (national currency), may furnish the best model for the organizational set-up, but their involvement in the national inflation makes it folly to try to use them in the emergency. This suggestion makes it necessary to disregard existing legal prohibitions and restrictions on the powers of cooperatives, private enterprises, and local communities; but in a great emergency, the substance of right and common law must prevail over the letter of statutory law.

the producer or owner has been given a normal period of time in which to dispose of them to best advantage. The Scrip Unions must dispose of goods deposited in the warehouses prior to the time when its depreciation or storage costs wipe out the margin between its market value and the amount of Scrip issued against it. Perishables, like fruit, vegetables and livestock, should be disposed of at the end of each market day; grain and other non-perishables should be disposed of within their normal season whatever it may be. The excesses received by the Scrip Unions on goods thus disposed of at auction over and above the amount of Scrip issued against it and the cost of warehousing and disposing of it, should be paid to the producer or holder of the warehouse receipts issued for it.

(f) In order to insure that the volume of demand for goods shall always be equal to the volume in supply; in order to avoid the hoarding of Scrip and a paralysis of marketing, and in order to make certain that the Scrip issued to producer is used only for the purpose of buying an equivalent amount of goods brought to market by other producers, the Scrip shall be what is known technically as automatic depreciating scrip.\* The larger the Scrip Union and the more widely a particular Scrip issue is used in a community, the smaller the rate of this depreciation needs to be. Silvio Gessel,\*\* who first suggested the use of such a monetary medium, assumed that a rate of one-tenth of one per cent per week would be sufficient to prevent hoarding of the Scrip. But rates as high as three per cent per month have been used. In my opinion, a rate of one per cent per month would furnish a good point of beginning. The Scrip Unions could subsequently lower this, if experience showed that it could be safely done, much as the rediscount rate is now varied by the Federal Reserve System. Scrip issued throughout the month of January would, beginning with the month of March, have a value of only 99; in the month of April, a value of only 98, in the month of May, of only 97, and so on until at the end of 100 months it would become worthless. The income derived by the Scrip Unions from this automatic depreciation of the Scrip issued by them should be used first to meet all the expenses of their operation, and the surplus which they would accumulate, set aside in a reserve to meet contingencies. The fact of depreciation would act as a natural means of checking hoarding. No prospective profiteer would find it profitable to speculate in the Scrip, because the automatic depreciation would always wipe the profits out from under him.

(g) There is nothing new or strange or impractical in the idea of issuing Scrip, not only for emergency use but for permanent use as a stable medium of exchange. (One of the largest co-operative societies in the world has at present 400,000 fr. of Scrip in circulation.)

\*The simplest device for providing for this depreciation is to issue Stamp Scrip. All Stamp Scrip is dated with its month of issue. On every first day of the first full month after its issue, a stamp (one per cent, for instance) has to be affixed to its back by the holder in order to maintain the value of the scrip at par. The Scrip Unions would issue such stamps in denominations corresponding to that of the scrip issued by them. There is no theoretically valid reason why they should not issue scrip and scrip stamps in very small denominations. Experience may show that stamping the scrip is unnecessary in denominations of less than 25 cents, 50 cents, or even one dollar. See "Stamp Scrip," by Irving Fisher (1933).

\*\*Silvio Gessel, German business man and economist, proposed this in his book, "The Natural Economic Order."

## IV. trade —

### —THE WAY TO THE REVIVAL OF BUSINESS

My fourth suggestion is that we call upon the retailers and wholesalers—the merchants and traders of America—to prepare for leadership in the revival of business. Leadership in the revival of trade, in the creation of markets for farm produce and manufactured goods for civilian consumption, and in the solution ultimately of the problem of employment, is the responsibility of traders.

Trade cannot be revived by bankers. It cannot be revived by governments. These may encourage revival by removing hindrances which they may themselves have set up to its conduct. But they cannot revive it themselves. Nor can trade be revived by merely producing goods. It cannot be revived

by farmers, by manufacturers, nor by workers. Trade can only be revived by traders. Home production for family use preceded, it is true, the development of trade. But modern trade, based upon the use of a monetary medium of exchange, preceded the development of modern industry; the commercial revolution came before the industrial revolution. But for the development of modern commerce, modern industry would be impossible. If trade is to be revived when the government credit collapses, it is necessary for traders now to plan what they will do in order to continue doing business under the real conditions with which they will be confronted after the war is over. Not "industry" but "trade" must prepare itself for leadership in the crisis.

## V. education for leadership

### THERE IS NO TIME TO LOSE

I have a fifth and final suggestion to make. Though it is in a sense a postscript, I consider the education and preparation of leaders for the coming crisis the most important suggestion I have to make. For unless we arrange for education of leaders in these various fields, it is doubtful whether we can make any of the suggestions I have outlined, work.

Each plan requires leaders not only with vision but with technical knowledge. Each is dependent for its success upon a staff of trained workers. We cannot hope to make them work successfully when the time comes without having prepared ourselves and equipped ourselves to implement these suggestions intelligently and effectively. So my final suggestion is that we turn to our educational institutions—to our universities, our schools of agriculture and business administration, and to all adult education institutions—and demand of them that they take the lead in the task of preparing us now, while there is yet time, for the coming crisis. All the technical knowledge needed to make these suggestions work are in their custody. They are the stewards and custodians of this kind of knowledge,

and not only the conventional knowledge now taught us in order to prepare us to hold jobs in industry and in government services.

These, of course, are plans for dealing with a terrible and unavoidable emergency. But they are much more than emergency plans. They are in accord with basic and fundamental economic, ethical and political principles. From these specific emergency plans it would be not only possible to shift to permanent reforms upon libertarian and decentralist principles, but it would actually be easier to effect them than is the case at present. The believer in the elimination of speculation in land and in money; the believer in legitimate business, in private property, in cooperation, and in strict restriction of government, will find that in preparing now for post-war action along these lines and in later actually dealing with the crisis as suggested, they will be making it easier to effect the reforms in which they believe, because the great mass of people will have learned from participation in these emergency measures the real potentialities of liberty, and of reform by persuasion instead of by coercion.

**THE NEW ERA - - 1920—1932**

Warren G. Harding elected president in 1920 on the slogan: *Back to Normalcy!* (The stock of the National City Bank of New York sold on the stock exchange for \$303 a share.)

Calvin Coolidge, 1924, reappoints Andrew D. Mellon, Secretary of the Treasury: *The greatest Secretary of the Treasury in the history of America.* (The stock of the National City Bank sold for \$466 a share.)

National Republican Campaign Committee, September 25, 1928: *Hoover-Curtis Prosperity League to Become a National Movement.* (The stock of the National City Bank sold for \$815 a share.)

Herbert Hoover, campaigning for the Presidency, 1928: *Two cars in every garage and a chicken in every pot.* (The stock of the National City Bank sold for \$840 a share.)

Herbert Hoover, acceptance speech, 1928: *We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us. We have not yet reached the goal, but given a chance to go forward with the policies of the last eight years, we shall soon, with the help of God, be in sight of the day when poverty will be banished from this nation. There is no guarantee against poverty equal to a job for every man.* (The stock of the National City Bank sold for \$1,495 a share.)

Andrew D. Mellon, Secretary of the Treasury, 1929: *The country is fundamentally sound.*

Charles E. Mitchel, chairman of the National City Bank, October 1929: *The industrial situation of the United States is absolutely sound and our credit situation in no way critical.* (Before the month ended, the stock market collapsed, and National City Bank stock sold for \$180 a share.)

Walter S. Gifford, President of the Am. Telephone & Telegraph Co., December 12, 1929, two months after the stock market collapsed: *We are assured of continued progress to still higher levels of living standards and national prosperity.* (In 1930, National City Bank sold for \$80 a share, and unemployment rose to approximately 8,000,000.)

**THE NEW DEAL - - 1932—1945**

Franklin D. Roosevelt, campaigning for the Presidency in 1932: *Happy days are here again!* (In 1933 every bank in the United States was closed down, and unemployment was estimated at from 9,000,000 to 10,000,000.)

Roger W. Babson, financial adviser, 1933: *Cheer up! There are better times ahead!* (During the next five years, unemployment never dropped below 7,500,000.)

Reginald McKenna, once Chancellor of the British Exchequer, Chairman of the Midland Bank, the largest bank in the world, 1933: *I confess the thought of inflation, so long as it is controlled, does not alarm me. In these days, the word is no longer a term of reproach.* (In 1933, unemployment was still 9,137,625.)

Henry A. Wallace, lecture at the Earl Foundation, 1938: *It seems clear . . . that we are now beginning to enter . . . a period which might be called the Era of General Welfare.* (Unemployment was still 6,502,500. Did he foresee the war, which would abolish it?)

George L. Harrison, President of the New York Life Ins. Co., 1943: *The life insurance companies of America, in the most comprehensive co-operative effort in their history, are inaugurating a nation-wide campaign to aid in the country's fight to hold down prices and the cost of living.* (The currency in circulation, which was only \$5,720,764,000 at the beginning of the New Deal, was now \$17,421,000,000.)

Dr. Alvin H. Hansen, financial adviser to the administration, 1943: *Post-war government spending will sustain our economy.*

Walter E. Kemmerer, George B. Roberts, John H. Riddle, and other eminent authorities, in a bulletin of the life insurance companies of America issued March 21, 1944, agreed in saying that inflation is in check and when asked whether controls are effective said everything from "Yes" to "More" effective than we have a right to expect.

William J. Baxter, director of the International Economic Research Bureau, September 22, 1944: *Everyone is going to be on easy street—it's as easy as A.B.C.* (Currency in circulation \$22,504,000,000.)

Henry A. Wallace, Secretary of Commerce, September 1945: *Sixty Million Jobs and a 200 billion dollar national income.* (Currency in circulation, \$27,269,000,000. Unemployment by the end of the year, owing to the end of the war with Japan, estimated at anything from 5,000,000 to 8,000,000.)

**what will people actually do?**

I have now told you what Americans might do in this crisis and what they should do. I must now briefly tell you what I think they will do. They will do nothing until the crisis comes. When that times comes, they will rush to Washington. Sooner or later, a government will be put into power which will stop the inflation by devaluing and revaluing the dollar. It is probable that the pattern of action will be more like that in France and Italy in 1926 when the old franc was devalued at 20 centimes on the 100, and the old lira at 25 on the 100 than that of Germany or Russia, which made no attempt to revalue the old mark or the old ruble at all.

When that happens, not only will people of wealth be reduced to beggary, but the thrifty middle class which has saved all its life will also be wiped out. Everyone will be reduced, so far as money and money income is concerned, to a uniform poverty level. Bankruptcy will be the lot of the bulk of all enterprises. Only those will have any wealth left whose wealth consisted, not of money, not of stocks and bonds, not of savings deposits, not of life insurance, not of deposits in banks, but of land and livestock, houses and furniture, tools and machinery, buildings and equipment, merchandise and staple commodities, and other tangible goods.

And they may not be able to keep even that, no matter how hard they may have worked to accumulate it nor how carefully they may have tended it all their lives. For if our friends in Russia have their way, and our Communist friends here in the United States, or even the followers of potential Huey Longs have their way, they may find that the government will confiscate that too, and insult them by calling them Kulaks to boot.

What, then, is the justification for making these suggestions? It is not any profound and messianic conviction that they will be accepted now by the

people as a whole just because I am convinced that they are valid. It is simply the fact that even if accepted by only a few individuals, a few groups, and a few communities, *they will work for them*. These individual homesteads and enterprises, these groups and communities, may then become islands of security, demonstration centers, and eventually the leaven which will permeate the whole of suffering society with the knowledge of how to lift itself from the chaos into which its faith in centralization has plunged it. In the final analysis, real salvation only comes from personal action.

RALPH BORSODI  
SUFFERN, N.Y.

August 8, 1945

To Edward J. Teal,  
Mildred Jensen Loomis,  
Frank G. Chiles,  
Herschel Papiroff,  
Emma E. Maunsell, and  
Katherine Smith.

I have read carefully your plan for publishing, as a patriotic service, my address dealing with the conditions which Americans will face after the war is over.

You have asked me in addition to answer the following questions:

I. What should a family do NOW with its money, savings and bank deposits in order to avoid their becoming worth less and less, and perhaps entirely worthless, before the coming inflation is over?

II. What should a family do NOW with its investments and savings in stocks and bonds in order to avoid their becoming worth less and less as inflation comes?

III. What should a family do NOW about its life insurance in order to prevent the protection it furnishes them from becoming worth less and less as inflation proceeds?

IV. What should a family do NOW in preparation for the time when the dollar is rendered worth less and less by inflation; what should families dependent upon salaries and wages do; what should families dependent upon savings or pensions do; what should families which look to social security (in the event of unemployment) do?

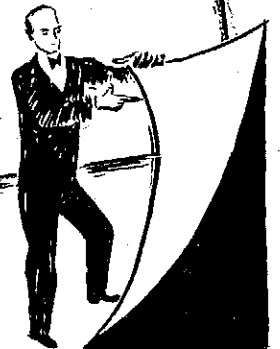
V. What should a family do NOW in preparation for the time when business depression and unemployment reduces or wipes out their income and makes it impossible for them to pay the interest and principal on their mortgages and debts---what should a family do now to protect itself against the possibility of the foreclosure of its home and farm?

Here are my answers to these questions.

I am answering them with the hope that you will succeed in your plan and that millions of Americans will find my answers of help to them in preparing their families for the post-war collapse of our money and banking system.

Sincerely yours,

*Ralph Borsodi*



challenging  
questions  
vital  
answers

# ***1. What should a family do NOW with its savings and bank deposits***

**IN ORDER TO AVOID THEIR BECOMING WORTH LESS AND LESS,  
AND PERHAPS ENTIRELY WORTHLESS, BEFORE THE COMING INFLATION IS OVER?**

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A bank deposit is a sum of money which a depositor has entrusted to some sort of banking institution for safe-keeping with the understanding that it can be withdrawn intact by him at some future time. Bank deposits therefore include the money people entrust to savings banks, commercial banks, trust companies, private banks, building and loan associations, credit unions, and the United States Postal Savings Bank.

All these banking institutions invest the money deposited with them in various kinds of loans and so-called "securities." If a bank's depositors begin to withdraw their existing deposits faster than new deposits are made in it, the bank has to call in the loans it has made or to sell or "liquidate" its securities in order to obtain the money with which to pay back its depositors. In ordinary times, new deposits always equal the amounts withdrawn by depositors. During periods of prosperity and during such extraordinary booms as we are now enjoying, new deposits enormously exceed the amounts being withdrawn from the banks. But during periods of unemployment and depression, the withdrawals, on the contrary, enormously exceed the new deposits.

During booms and periods of "prosperity" and of so-called "good times," the banks are able to sell their securities and to "call" in their loans and to realize as much money as they originally loaned to their borrowers or invested in securities. But during periods of depression, many of their borrowers go bankrupt, and the banks begin to lose the money belonging to their depositors which they loaned to borrowers. In addition, when they begin to sell the securities which they bought with their depositors' money, they find that the prices which they can obtain for them are far lower than that originally paid for them. The more of their securities they are forced to sell by the demands of their depositors, the lower prices on the stock exchange fall, and the less the banks are able to realize upon them. When this begins to happen, those depositors who were wise enough to have withdrawn their money in time are paid off in full, while those who are foolish enough to leave their money in the banks have no such luck.

As soon as any bank is unable to pay off its depositors in full as fast as they ask for their money, it is forced by law to close its doors—it is declared insolvent or bankrupt. It suspends payments. When this happens, a receiver is appointed to call all of its loans and to sell all of its assets and securities for whatever they will bring. Enormous court and legal expenses are involved in such proceedings. After paying all these costs first, out of the proceeds realized by the receiver, what is left is paid back, pro rata, to the depositors. Often the share paid to the depositors is only a tiny percentage of the amount originally entrusted to the bank; often nothing

at all is left with which to pay them off. During the last depression, thousands of banks failed; hundreds of thousands of depositors couldn't withdraw a cent of their money when they most desperately needed it. When Franklin D. Roosevelt became President, so many banks were failing that he closed every single bank in the United States. Thousands of them never reopened, and in many instances every cent deposited in them was completely lost.

This sort of thing has happened over and over again in the history of the United States. People have short memories. After a few years of such prosperity as we have enjoyed since the war in Europe began, they forget what happened during the previous depression. A new generation also comes along which hasn't had the experience of losing its savings and hasn't gone through a period of depression, unemployment and bankruptcy. In addition, new politicians and administrations get into office by promising to abolish depressions and to reform the banking system. The new laws passed help to lull the people to sleep and to make them forget the sufferings, and often actual starvation, caused by this recurring calamity.

Before the great depression which began when the stock market collapsed in 1929, the people were told that the new Federal Reserve Banking system had made the country depression proof. Economists, business men, bankers, and politicians called it the New Era. Yet when the test came, the Federal Reserve Banking system proved powerless to stem the storm.

As a result of this crash in the Hoover administration, Franklin D. Roosevelt was triumphantly elected in 1932 on the promise to establish a New Deal. Like all his predecessors elected on the same issue, he promptly had a lot of so-called "reforms" enacted. During the present boom, the greatest in our history, these reforms have helped to give people a sense of security similar to that which they felt during the New Era and from which they were painfully awakened by the collapse of banks, beginning in 1929. But the reforms made by the New Deal do not touch the fundamental causes of the evil—they still leave the United States with a money and banking system which is dependent for its solvency upon a colossal tower of debt. If, for any reason, these debts and securities cannot be converted into money with tangible purchasing power when bank depositors begin to ask for their money, nothing has been done which will actually avoid a repetition of the horrors experienced by people during previous depressions.

At present, every family whose savings consist of deposits in any kind of bank, is living in a fool's paradise. We are in the midst of the greatest period of prosperity in the history of the United States. All the New Deal reforms seem to work. But the tower of debt is constantly growing higher and higher. The question is, what will happen when people begin to withdraw their deposits from the banks faster than new deposits are made in them? What will be the final outcome when people begin to lose their confidence in the stability of the banking system?

My answer is that they will lose all or lose most of their savings, in spite of the so-called reformation of the banking system. And my answer, therefore, to the first question which you have asked me is *that every family in the nation should begin NOW to withdraw the money it has on deposit in any kind of banking institution and to invest all of its surplus cash in tangible and productive property of various kinds.* All the money it has on hand and saved, should be invested in tangible property excepting only: (I) an amount no greater than it ought to have on hand for current expenses and ordinary emergencies, and (II) an amount no greater than the total it may owe on mortgages or debts of any kind. And this amount, which should

not be converted into tangible property, had better be put into a safety deposit box than kept on deposit in the banks.

I. By current expenses and ordinary emergencies I mean an amount not less than the sum the family ordinarily spends in one month nor more than it spends in three or four months. In spite of the fact that the purchasing power of the dollar will constantly decline as the inflation proceeds and becomes more and more serious, it is the part of wisdom to have some cash on hand. Only it should not be too much!

II. The reason that families are justified in making an exception of an amount not greater than the amount owed on mortgages or other debts is that no matter how much the purchasing power of the dollar declines when spent for tangible things, it can always be used dollar for dollar in paying off debts. For instance, suppose the family owes a balance of \$1,000 on the mortgage on its home. Suppose it has \$500 saved in cash. As inflation proceeds, and prices rise, the \$500 which originally might have purchased 500 bushels of wheat may shrink in purchasing power so that it can be used to pay for only 250 bushels. But no matter how much inflation causes the \$500 to shrink in purchasing power, it will always be worth \$500 in payment on account of the mortgage.

What now do I mean when I say that it should invest all of its surplus cash in *tangible and productive property*? I mean that it should invest in such things as:

I. Productive land. (But the acreage purchased for the family homestead should not exceed, ordinarily, more than might be cultivated by the members of the family with their own labor, and from which they might produce enough surplus produce or crops of some kind to raise the cash to meet taxes and to pay for other necessities which they cannot produce for themselves. This land should, if possible, include not only garden and plow land but also wood land, for fuel and pasturage for livestock. A farm family should have a larger acreage than a family which ordinarily obtains its cash from wages or salaries, or from business or a profession. Land represented by the plot on which the family's home is erected or on which its business is conducted, is productive land—in the first instance because it helps to produce the family's "shelter" and in the second because it helps produce what otherwise would have to be paid in rent to a landlord.)

II. Investments in the improvement of its land—investments in fencing, drainage, fruit trees, reforestation; building top-soil with manure, compost, humus, and lime; roadways, fish-ponds, prevention of soil erosion, etc.

III. A home, and other buildings to complete and increase the productivity and efficiency of the homestead—barns, chicken houses, pig houses, granaries, root cellars—buildings in which to store produce and feed, or to process food for consumption.

IV. Productive home equipment—efficient ranges, food mixers, refrigerators, freezing units, washing machines, ironers, sewing machines, looms, flour mills; furniture including plentiful supplies of linens, bedding, staple clothing, and fabrics of all kinds, and any other kinds of household equipment which stores and keeps well for a long period of time; tools of all kinds, and machinery for woodworking, metal working, leather working and painting, including lathes, drills, circular and band saws, welders, etc.; books, pianos and musical instruments and equipment for hobbies such as photography, home movies, radio, stamp collecting—in fact anything tangible which can be used sooner or later for producing either food, clothing and shelter or which will furnish entertainment for which otherwise money would have to be spent.

V. Agricultural equipment—tractors, small ones for the garden and full size tractors for farms, including all the appliances to go with them—plows, cultivators, trailers, sprays, mowers, etc.; and, if horses or mules are used, draft machinery, harness, wagons, etc.; automobiles, trailers, trucks.

VI. Live stock—horses, mules, cows, oxen, sheep, goats, pigs, chickens, ducks, turkeys, and of course additional land enough to pasture and raise feed for them if the labor is available and the family has the necessary skill.

VII. Commodities to be stored on the homestead, and if necessary also in public warehouses and elevators—lumber, cotton, wheat, corn, coal, copper, lead—the important consideration in making such commodity investments being that it does not deteriorate before it can be used and that the cost of storing it is not excessive.

VIII. If the family has a business or profession of its own, investments in improving buildings, equipment and machinery, and in building up inventories of the staples used in its operations. Such inventories, however, should be counted not in their dollar values, but in physical units. During inflation inventories in dollars soar, but tangible property is measured not in dollars but in units.

IX. Investments in education, including the acquisition by every member of the family, both old and young, of new technical skills which can be used on the homestead and also in earning money.

X. If the family is so wealthy, and realizes more money from investments which it should dispose of in view of the coming of inflation, than can be absorbed by the above program, it might make real estate investments, (not however any loans on mortgages but outright purchases, preferably of farm property); or invest in spot commodities traded in on produce exchanges, and last of all, invest in stocks selected on the recommendations of reputable investment counsellors, but under no circumstances including bonds of any kind.

My answer to this question would not be complete if I did not also answer a question which it naturally did not occur to you to ask: *Isn't it true that deposits up to \$5,000 are guaranteed against loss, and that mem-*



*ber banks of the Federal Reserve system can borrow on their loans and securities the cash they may need in order to pay off their depositors?*

To this question I must answer that these so-called reforms are not sufficient to guarantee depositors against loss. They are typical of the political reforms applied to an essentially unsound system which persuades depositors in banks to live in what I have called a fool's paradise. They seem to work, for a time; they work beautifully during such years of prosperity as we have been enjoying since the war began. But the war has ended; the unsolved problems which plunged us into the depression of 1929 are coming to the front again as millions of war workers and demobilized soldiers begin to look for work. The question is, will these reforms guarantee not only bank depositors, but anybody who is depending upon money, against loss when withdrawals from the banks begin to exceed new deposits?

There is not one but two things which may cause loss to those who do not withdraw their savings now, and who do not plan for some alternate method of supporting themselves than dependence wholly upon money. The first I have already discussed—the banks in which they have deposited their savings may fail. The second is that which I will now discuss.

Even though banks may be enabled by these so-called reforms to remain technically solvent in times of stress and strain, the depositors will still lose their savings when inflation comes *through the decline in the purchasing power of the dollars paid to them*. Even if the banks are kept open by these reforms and the depositors are paid off in full in paper dollars, that will not help them if the dollar itself has been rendered worth less and less by inflation.

At one time the holder of United States dollars would have received ten gold dollars for every paper ten-dollar bill he presented to a branch of the Treasury department. Today there is nothing back of the paper dollars the people of the United States are using except the credit of the government. That credit is enormous, and faith in it is universal. During periods of prosperity it is seemingly justified, but it has been grossly abused over and over again in the past, and never so shamelessly as during the period of deficit financing which began with the establishment of the Reconstruction Finance Corporation. Trading in that faith has been the main article in the bag of tricks brought to Washington by the New Deal.

You may ask what I mean by abusing the faith in the credit of the government. I mean the issuance of more dollars than the government is able to redeem from its ordinary revenues; I mean the appropriation by the government of agricultural products, manufactured goods, labor and services of all kinds on the promise to pay for them in dollars which it cannot redeem, and which it must ultimately either depreciate or repudiate. This process of issuing more money than can be redeemed at its original value or purchasing power is what inflation really is. Inflation begins when this process begins; it comes to its ultimate climax, however, only when people begin to wake up to the fact that redemption of the dollar at its original value is impossible.

It is for this reason that I say that even though these so-called reforms of the banking system are in effect, and depositors are paid off in dollars, that they will ultimately lose all or most of their savings anyway. Even though those who withdraw them now will lose a considerable part of their original value—about a third of what their savings were worth before the war—that is nothing compared to what they will lose if they wait until inflation really begins to approach its climax.

## 2. *What should a family do NOW with its stocks and bonds*

IN ORDER TO AVOID THEIR BECOMING WORTH LESS AND LESS AS INFLATION COMES?

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It is necessary to divide this question into two parts, the first dealing with stocks, and the second with bonds. Though both stocks and bonds are called securities, they are nevertheless so different that the answer as to what to do about them must take these differences into account.

*Stocks* are certificates issued by corporations to those who have invested money in them. On the face of it, these ornately decorated pieces of paper merely certify that the investor is the owner of one or more shares in the equity of the corporation, and that he is therefore entitled to a share of the profits which it earns. By equity I mean simply the value of the assets of the corporation over and above its bonded debt and other liabilities. Stocks are purchased for two reasons: to obtain dividends, and to gamble on the possibility of rises in the prices paid for them. When purchased merely to receive dividends, such a purchase is called an investment; when purchased to resell at a higher price, it is called a speculation.

Stockholders buy their shares in one of two ways: (a) from so-called investment bankers (not so long ago known as corporation promoters and financiers). These investment bankers obtain control of original issues of corporations and usually sell them to the investing public around par, which for most stocks is \$100 a share. The investment banker receives a commission for this service, which in many instances used to be a grossly excessive part of the whole amount paid by the investor. The balance received is then turned over to the corporation to be used as capital. Or (b) stocks are purchased through a stock broker who buys them on the stock exchange from another broker who represents some investor or speculator who already owns the desired stock.

As long as a corporation is solvent, all that a stockholder receives are the dividends which it may choose to pay. When a corporation fails, then in theory each stockholder is entitled to receive his pro rata share of the equity his stock represents. But when it fails, its assets are sold through an expensive bankruptcy proceeding. Whatever is realized from the liquidation of the corporation's "estate" is used first to pay the receiver, then the courts, then the lawyers, and then the bondholders and other creditors of the corporation. If anything is left, it is divided among the stockholders in accordance with the number of shares each one holds. Sometimes, however, instead of completely liquidating the corporation, this proceeding turns into a reorganization; new capital is obtained and the original shareholders are given a smaller fraction of their original "ownership" of its assets and their original claim upon its profits.

Because of the fact that corporations come into existence and go out of existence in this manner, there is only one relatively intelligent way to invest in stocks; that is continually to shift ownership from corporation to corporation, getting rid of stocks in corporations which are threatening to lose money (and letting someone else "hold the bag"), and putting one's money into other corporations which are promising to make money by buying shares in them from stockholders who are foolish enough to want to sell their shares in them. To some extent, therefore, speculation is unavoidable if the principal sum invested in stocks is to be kept intact.

The recommended manner for lessening the necessity for shifting about too frequently is to invest only in so-called blue-ribbon stocks — those issued by corporations long established and with a record of profits and payment of dividends for many years. But these stocks are high in price, and the net return for each dollar invested in them is relatively small. Ordinarily it is not very much higher than the interest received from the investment of money in bonds.

The accepted rule with regard to investment in stocks and bonds is to put money into stocks, during periods of inflation, when profits rise; and to get rid of them, and put it into bonds, during periods of depression and deflation when profits decline. During periods of inflation, the rise in dividends and the rise in the prices of stocks tends to offset the decline in the purchasing power of the principal sum which is being invested. But since few people are able to forecast inflation and deflation in time to make the shift back and forth between stocks and bonds, this rule does not amount to much more than advising people to speculate on the question of when inflation or deflation will take place. It has been my experience that it is easy to forecast the fact that such a change will take place, but that it is almost impossible to forecast very accurately just when it will take place.

At present we are already well into a period of inflation. Both corporation profits and stock prices have been rising. Investors are therefore being advised by competent investment counsellors to put their money into stocks, partly in order to profit from the inflation and partly as a hedge against the decline in the value of the dollar. This advice is given on the threefold theory that, as prices rise, (a) the profits of the corporations will rise; (b) the value of its assets will also rise; and (c) the price of the stock will rise, in part because the corporation will tend to pay off its bonded and other liabilities; and in part because the value represented by the equity in the assets will increase. There is something to this theory in periods of mild inflation, but during periods of run-away inflation it becomes virtually meaningless.

My advice with regard to what to do with stocks now is divided into two parts, the first for those who have only a little money tied up in them, and the second for those who have a great deal. To those who have only a little, my advice is to get rid of them at once, and to shift the money into tangible and productive property before inflation makes it virtually impossible to do so. While to those who have a great deal of money, my advice is to put as much of it as they can into productive and tangible property and, after they can no longer find such property, put the remainder, under the advice of reputable investment counsel, into the stocks of companies whose assets consist mainly of staple commodities and of fixed capital the value of which is not likely to depreciate. The rank and file of people ought to have nothing at all to do with stocks and bonds — their savings ought to be invested in tangible and productive property, which is in their own possession, which they can themselves control, and which they can use to produce for themselves the essentials of a good living; they ought not to turn their money over to the tender mercies either of the finance-capitalists

of Wall Street, or the political tricksters of Washington. The first have a long record of conscienceless exploitation of the funds entrusted by the people to them; the second, an equally long history of conscienceless cooperation in the process.

*Preferred Stocks.* I have said nothing here about preferred stocks because my advice with regard to them is much the same as with regard to stocks. Preferred stocks, which usually give the stock holder a preference over the holders of common stocks with regards to both dividends and principal, partake of some of the characteristics of both common stocks and bonds. As regards inflation, they have neither the advantages of common stocks nor the disadvantages of bonds — they are neither flesh, fowl, nor good red herring.

Now as to the second part of the question having to do with bonds.

*Bonds* — as the word is used with regard to securities and not in legal terminology — are issued either by private corporations to people who lend, rather than invest, their money in them, or they are issued by municipalities, states and the national government to people who lend their money to these organized, political entities. Bondholders receive fixed rates of interest. They do not share in the profits of the corporation either in the form of increased dividends or rises in the future value of the principal sum invested in them. Because of the fixed rate of interest, the prices of bonds do not rise very much above par, no matter how great the profits of a corporation. This, however, does not prevent the prices of bonds from dropping nearer and nearer to zero, if for any reason the corporation defaults continuously on interest payments.

It is necessary to distinguish sharply between government bonds, and all other kinds of bonds. Corporation bonds give the bondholder a preferred claim upon the assets of the corporation in the event that it fails. Corporation bonds are in substance mortgages upon the assets of the corporations which issue them. They constitute a preferred claim upon the corporation, as compared with either preferred or common stocks.

But this is not true with regard to government bonds.

If a corporation defaults upon either its promise to pay interest to its bondholders or to repay the principal of the bond whenever such payments fall due, the bondholder can force the corporation into bankruptcy and foreclose his mortgage upon its assets. But in the case of government bonds, the bondholder has no recourse, and there is nothing which he can do if the terms of the bond are not fulfilled by the public officials of the government which issued them.

Corporation bonds, like corporations themselves, have a notoriously bad financial history. But this also is true of government bonds. Countless people have loaned their money to various governments and lost their money. This also is true of money loaned by people to the government of the United States; not, however, so much owing to the failure of our Treasury officials to pay the interest or principal when due, as through continuous and periodic inflations of the dollar. The most notorious recent instance is that which took place on February 1, 1934 during the first administration of Franklin D. Roosevelt when the United States repudiated the solemn promise contained in all of its outstanding bonds to repay them in gold and began, instead, to repay them in depreciated paper money.

Corporation stocks, as I have explained, are claims upon the profits and equities of corporations; bonds of all kinds are merely claims to a fixed rate of interest and for the return of the principal amount of money loaned by the bondholder. For this reason, when inflation comes, the real value of bonds tends to decline in precisely the same ratio as the decline

in the purchasing power of money. If the purchasing power of the dollar declines one-half, the purchasing power of the money represented by a bond also declines one-half.

Stocks, on the other hand, usually rise in price during periods of inflation because, with the rise in prices of all kinds, the profits of the corporations also rise. For this reason all sound investment counsellors advise their clients to get rid of their bonds during periods of inflation and shift their investments into stocks. We are in such a period of inflation now. For this reason, my advice to bondholders, without regard to the kinds of bonds they may hold, is *get rid of them now*.

The government, by adopting a completely vicious system of financing the war — one which aims at deliberate inflation — has put patriotic Americans into a box. If they do not buy bonds, and if they do not hold them, they suffer from the stigma of failing to support the men risking their lives in the army, navy and air force. Personally, whenever I buy a Victory bond, I look upon it as a contribution to the war effort. If I were eventually to lose all that I have put into my war bonds, I would look upon it as my gift to the war effort — a gift which bears no comparison to the contribution made by millions of Americans who have been made to risk their lives in winning the war. But I do not look to them for the future security of my family. I look upon my Victory bonds exactly the same as I do upon my bank deposits — as something the value of which will go down nearer and nearer to zero as the inflation becomes worse and worse. For my real security I look to my homestead; to the tangible land, buildings and equipment with which my family and I can obtain the necessaries of living. So my advice to bondholders is the same as my advice to depositors — *do not hold any more bonds of any kind than an amount which, put together with your bank deposits, is in excess of what you owe for a mortgage or for other debts*. You should be able without difficulty to convert your bonds, and your bank deposits if they do not exceed \$5,000, into cash and pay off what you owe, dollar for dollar, at any time. But if you have no mortgage or debts to pay off, you will find that each dollar you possess and every bond you keep will give you less and less purchasing power for the tangible goods which your family needs in order to live.

### 3. *What should a family do NOW about its life insurance*

IN ORDER TO PREVENT THE PROTECTION IT FURNISHES FROM BECOMING WORTH LESS AND LESS AS INFLATION PROCEEDS?

Life insurance policies are contracts entered into between a policyholder and an insurance company. These contracts provide that the policyholder shall make regular payments of money to the company — payments called “premiums” — in return for which the company agrees to pay a beneficiary designated by the policyholder a specified sum of money in the event of his death.

The company invests the money received by it in the form of premium payments principally in bonds, mortgages and similar investments. In America, insurance laws specify in great detail how the funds entrusted to insurance companies shall be invested. Most of these laws, unfortunately for the general public but very fortunately for the investment bankers of Wall Street, restrict their investments largely to bonds and mortgages. In conformity with these laws, most of the funds of our insurance companies are not invested in tangible and productive property, which is relatively inflation proof, but in securities which are not inflation proof. If anything happens to decrease the purchasing power of the dollar, the value and the purchasing power of the funds entrusted to the insurance companies by policyholders begins to fade away. While the company may be able to meet its obligations in dollars, the beneficiaries who look to one of them for protection will find that the dollars paid in accordance with the terms of the contract have shrunk to a mere fraction of their original worth. At present about one-third of the investments of most insurance companies consists of government bonds. As inflation comes, not only will these bonds shrink in value but the purchasing power of most of the other assets will likewise shrink in value. When inflation came in Germany, the beneficiaries of policies were often unable to buy anything more with the principal sum paid them than a wreath to lay on the grave of the dead.

Because of this, every family should immediately begin to reorganize not merely its insurance program but its protection program to fit the situation created by inflation.

The purpose for which life insurance ought to be carried is to provide the members of a family with protection against death of any member of the family upon whom they are dependent for their livelihood. There is, however, not one but three methods by which this protection can be provided: (a) it can be provided by acquiring a tangible estate, or “real” estate, which will furnish the survivors of a family with shelter, food, and the opportunity to produce an income; (b) it can be provided by saving money, depositing it in banks or investing it in securities and creating a

"monetary" estate; or (c) it can be provided by taking out life insurance. Let me consider briefly each of these three methods from the standpoint of the situation created by inflation.

I. *"Real" Estate.* The protection which a properly planned homestead can furnish a family is unaffected by either inflation or deflation. It furnishes the family shelter, food, and perhaps fuel, and the value of these things to the family is the same regardless of what happens to the purchasing power of the dollar. The price which has to be paid for eggs, or for which eggs can be sold, is affected by inflation and deflation, but the nourishment which an egg furnishes to the members of family which has a poultry yard is exactly the same even when eggs are a drug on the market. If the homestead produces a saleable surplus of any kind, the amount of money received for the produce sold will rise during a period of inflation and so tend to offset the decline in the purchasing power of whatever money the members of the family are able to earn at their regular occupations. With a properly equipped, organized and managed homestead, if the family group is large enough, even the death of the father may not seriously interfere with the ability of the remaining members to carry on, particularly if they have been properly taught to cooperate in the work of maintaining the homestead. For these reasons, the tangible and productive property represented by a homestead furnishes the best form of protection against death.

II. *Monetary Estates.* But if modern families are to maintain the standard of living to which they have been accustomed, and if they are to be able to meet the heavy cash expenditures which custom requires them to incur in connection with the last illness and the funerals of those who die, they must also have a monetary estate of some kind. There are two ways of protecting a family against this contingency. The family can either save and invest money — depositing money saved regularly in a bank of some kind or investing it in stocks and bonds, for instance — or it can take out life insurance. It is perfectly obvious that the more complete the family's homestead, and the greater the quantity of tangible and productive property it owns, the smaller will be its need for a monetary estate. It is also perfectly obvious that the more it relies upon what I have called its "real" estate for protection, the less necessity it has for relying upon cash savings or life insurance for protection. What families should do now with their savings or their "monetary" estate I have already discussed in answering question one and two. It is unnecessary therefore to repeat my advice on this subject. I turn therefore to the question of what to do about life insurance.

II. *Life Insurance.* Among the more important purpose for which life insurance ought ordinarily to be carried are: (a) to enable the family to meet the costs of the last illness of its dead; (b) to pay the expenses of burying them; (c) to pay its debts and particularly to satisfy any balance due on the mortgage on its home when its principal breadwinner dies; and (d) to furnish it the cash it will need during the period of adjustment to his loss. But these purposes, which I have been calling protection, are combined in most of the life insurance policies sold by our regular life insurance companies with a totally different purpose — that of compulsory saving and investment. It is necessary to distinguish between these two elements which are combined in most life insurance contracts. The first of these elements I think of as *term insurance*; the second, as *compulsory investment*.

*Term Insurance.* Life insurance policies which contain only the first element, and which furnish protection pure and simple, are known as term insurance policies. Most fraternal insurance associations furnish term insurance only; life insurance companies all sell term insurance, but do not like to do so. The real profit in the life insurance business — the part of the business which critics of modern life insurance have properly called a racket

— comes from the sale of those types of insurance policies in which term insurance is combined with compulsory investment. Every imaginable device to which life insurance companies can resort is therefore used in order to discourage people from buying term insurance and to encourage them to buy "Whole Life," "Ordinary Life," "Ten-Payment and Twenty-Payment," and "Endowment" policies. "Cash surrender values" and "loan privileges" are among these devices. The loan privilege amounts merely to this, that the company agrees to "loan" the policy-holder a part of his own savings, and to charge him 6% interest on the so-called loan. The "cash surrender value" amounts to nothing more than the return to the policy-holder of a similar part of what he has been compelled to save in return for giving up all his claims for protection.

In order to discourage agents from writing term insurance and to encourage them to sell other types of policies, the commissions paid to agents on term insurance are very low while in the case of other types of policies, the agents usually receive the whole of the first premium and a percentage of the premiums paid thereafter. In addition, since the premium which has to be paid on these other types of policies are often as much as four times as high as that which has to be paid for term insurance, the amount upon which the commissions are paid is correspondingly higher. No wonder life insurance agents concentrate on selling expensive policies!

*Compulsory Investment.* All life insurance policies other than those restricted to term insurance pure and simple, have compulsory investment elements in them. By this I mean that the premium which the policy-holder is required to pay, in order to keep his policy in force, is higher than that which is needed merely to furnish him protection. The excess premium which he is thus compelled to pay over and above that needed to obtain the protection desired, constitutes what I am calling compulsory investment. In "Whole Life" policies, from one-quarter to one-third of the whole premium is paid for compulsory investment; in "Ordinary Ten and Twenty-Year" policies about one-half of the premium paid is for compulsory investment, and in "Twenty-Year Endowment" policies about three-quarters of the premium paid is for compulsory investment, and only one-quarter for protection. I call this feature compulsory not only because it is tied to the payment required for protection but because it carries with it the threat that if, for any reason, the policy-holder finds it difficult or undesirable to continue making such heavy premium payments, he is seemingly compelled to do so under penalty of forfeiting protection for his dependents.

My advice to every family in America as to what to do about its life insurance now, is threefold:

I. *Under the advice of a competent insurance counsellor* (not insurance agent), take out *renewable* term insurance sufficient to meet all the immediate needs of the family for protection; and in addition, if there is a mortgage on the family home, sufficient *reducing* term insurance (known also as mortgage insurance), in order to enable your family to pay off the mortgage in the event of the death of its principal breadwinner. Your existing company may not issue renewable term insurance; it may not issue reducing term insurance; it may not be willing to sell you term insurance even if it does issue it. In that event you should take out your term insurance in other companies. If, because of age or health, it is impossible to obtain term insurance, then "Whole Life" policies should be substituted in your present company for those which contain larger compulsory investment elements.

II. Because of inflation and the decrease in the purchasing power of the dollar since the war, the protection furnished by insurance policies has been cut down approximately one-third. As inflation continues, this pro-



tection will be cut down more and more. A \$1,000 policy, which originally furnished beneficiaries \$1,000 in purchasing power before the war, furnishes them only about \$666 in purchasing power at present. In order to provide the same amount of protection, or purchasing power, to the survivors of the policy-holder as they had before the war, it would be necessary to take out approximately \$1,500 in insurance for each \$1,000 carried at present. As the inflation proceeds and the purchasing power of the dollar decreases more and more, the amount of term insurance carried would have to be progressively increased in order to furnish the same amount of protection as that which the policies furnished before inflation began. As term insurance is very much cheaper than other forms of insurance, it may actually be possible to bring the family's protection abreast of the inflation and still pay less in premiums than is now paid for policies which contain compulsory investment elements.

III. After the family has obtained the life insurance recommended above, *again under the advice of a competent counsellor*, it should cancel all its policies containing compulsory investment elements. It should then take the cash obtained from their surrender and invest it in productive and tangible property as recommended in answer to question one.

Because of the intricacies of insurance contracts and the trickery practiced by insurance companies and agents, I again repeat that I do not advise anybody to conduct the negotiations necessary to make these changes without the advice of a reliable life insurance counsellor. These counsellors should not be confused with agents. If reputable, they do not sell life insurance. They charge the policy holder a fee for help in making the changes desired. They are therefore free to represent the interests of the policy-holder, and their knowledge is of inestimable value in overcoming the technical difficulties which insurance agents and companies create for those who try to carry out such a program as I have recommended.

#### **4. *What should a family do NOW in preparation for the time the dollar***

**IS RENDERED WORTH LESS AND LESS BY INFLATION?**

***What should families dependent  
upon salaries and wages do ?***

***What should families dependent  
upon savings and pensions do ?***

***What should families who look to  
social security (in the event of unemployment) do ?***

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As inflation proceeds and the government issues more and more paper dollars; as banks and the holders of government bonds redeem or liquidate them and obtain paper money in place of them, the purchasing power of the dollar will steadily decline. Salaries and wages may be raised, but they will always lag behind the decline in the purchasing power of the dollar. Farmers may receive higher prices for their cash crops, but they will be able to buy less and less merchandise, equipment and supplies with the money received for them. Families dependent upon savings, pensions or social security payments will find that the money received from these various sources will not enable them to obtain the necessaries of life.

Most people, who are already being victimized by this process, complain about the rise in prices and the rise in the cost of living but they do not complain about what Washington is doing to create these conditions. The rise in prices, however, is merely an effect caused by what the government in Washington has done and is doing. As Washington proceeds with its present fiscal policy, the purchasing power of the money people receive for their work, and the money they receive from any other source, will continue to decline. Labor unions will fight for higher and higher wages; salaries will be raised; already plans are under foot to increase social security payments; but no matter how much these may be raised, they will not solve the problem so long as government's own budget is unbalanced and the printing presses in Washington continue to print more paper money than the government is able to redeem out of its current revenues. As inflation proceeds, farmers who have food, and merchants who have clothing and other tangible goods and commodities will prefer to keep them rather than to part with them for paper money; goods will go into hiding; they will not go into black markets so much as into markets where they can only be obtained by bartering other goods for them.

The money which Washington is now issuing, and which people are receiving from day to day, is technically known as fiat currency. All modern money, it is true, has been to some extent issued by fiat. Even when our own paper currency had gold and silver back of it, it was still fiat currency to whatever extent the bullion value of the gold and silver was less than the value at which the money circulated. But at present the currency — except for silver certificates — is not redeemable in any precious metal.

Most of the dollars which we are now using are Federal Reserve notes. A ten dollar bill reads like this: "The United States of America will pay to the bearer on demand Ten Dollars." If you go to the Treasury Department in Washington and demand the Ten Dollars, as promised, all that will happen is that you will be given Ten Dollars in paper money which makes exactly the same promise to you as that made on the original bill.

It would take a long book to describe the elaborate hocus-pocus by which the various governments of the world issue money. Each government has a somewhat different system for issuing its money, but all of them have the one common objective of persuading people to accept their money as the basis of their economic life. The principal method used by our own government in putting its fiat paper dollars into circulation is that of paying its own expenses with them. Ordinarily, it levies enough in the form of taxes to keep the whole system operating without any noticeable depreciation in the value of its money. When, however, it is impossible for Washington to collect enough in taxes to offset the quantity of money it has issued, it has to issue more and more money to fill the gap; and this process, which constitutes inflation, results in more and more rapid declines in the purchasing power of the dollars as they are issued. People complain about the rise in price and blame those who are making profits — in paper money — instead of blaming the government officials who make it possible for them to earn their unholy profits. As prices rise, the government's own expenses of operating rise, and it has to issue still more dollars to fill the gap it continues to create, thus starting a spiral which has often in history resulted in rendering the currency issued by governments worthless. This happened once before in the history of the United States, in spite of our fabulous natural resources. It is now threatening to happen again.

At present the fact that Washington is issuing a fiat currency is concealed by the process of selling government bonds. A government bond is a promise to repay money borrowed by the government from the buyer of the bond, at some specific time in the future, together with interest for waiting for the repayment of the money. The idea behind this practice of selling government bonds is that, by getting the people to buy the bonds, the surplus money in circulation is immediately obtained by the government, with which to meet its current expenses without its having to levy prohibitive taxes. During the period of time before the bond becomes due, the government hopes that the Treasury will be able to accumulate a sufficient surplus out of taxation with which to redeem it. If the volume of bonds issued is not excessive; if the government balances its budget and spends less than it collects; and if the politicians in office have the courage to impose sufficiently high taxes, this scheme, for avoiding the evil of issuing more dollars than can be redeemed at a given time, works. In ordinary times it works quite smoothly.

But it is not working now. The proof of the fact that it is not working is that prices are rising, and that goods supposed to be sold only at fixed prices are disappearing into black markets. It is not working now because the government hasn't balanced its budget for fifteen years, and because it has sold over 260 billion dollars worth of bonds up to the time I am writing this letter, in order to fill the gap created by its excess of expenditures over tax collections.

All of these bonds are directly or indirectly convertible into currency. The series "E" bonds, for instance, are directly convertible into money, even though they are supposed to mature only at the end of ten years, within sixty days after they have been issued. The series "F" and "G" bonds are likewise directly convertible into money within six months after being issued, even though they are not supposed to mature for twelve years. All the other types of bonds are indirectly convertible into money through the agency of the Federal Reserve Banks.

As soon as there is a demand for the money locked up in these bonds either by the bondholders, or by bank depositors whose deposits the banks have invested in government bonds; or there is any decline in the open market price of the bonds; or any loss of confidence in the stability of the dollar or the bonds; the process of converting bonds into dollars will begin to take place by billions. The printing presses in Washington will then begin to roll out billions in paper dollars to take the place of billions of bonds. When this begins to happen in a big way — up to the present it has happened only in a small way — the volume of currency in circulation will rise to fantastically higher levels, and prices will rise equally fantastically. After the last war, when this happened in a very mild way, sugar rose to 25 cents a pound. But this time it will not happen in a mild way because the national debt is represented not by 25 billions in bonds but by 250 to 300 billions in bonds. Sugar might very well rise to \$2.50 a pound when the process really gets under way.

My advice to every family in America which is now depending for its support upon the money it can earn, is to establish itself just as quickly as it can on a homestead of its own so that it is able to utilize all the labor of the members of the family in producing food, clothing, shelter and fuel, and anything else which they can learn how to make for themselves. The various members of the family should be taught how to garden; how to cook; how to can, dehydrate, and preserve food; how to milk, make butter and cheese; how to raise chickens and eggs; how to sew and weave; how to carpenter; how to repair their own cars and tractors and machinery; how to operate agricultural equipment and other appliances. All this educational preparation should begin immediately. It cannot be learned overnight. All the equipment should be acquired now, since it represents a better and more secure investment than that represented by money in the bank. Farm families should pay off all their present debts; stop raising cash crops which require them to go into debt; they should stop going into debt for farming equipment, and concentrate, as soon as market crops become unprofitable, upon producing things only for themselves. If enough families in America were to embark upon such a program, they would even help those who do not make this transition; they would help even those who remain in cities and depend upon industry, to reduce the suffering to which inflation will subject them.

***What should a family do NOW  
in preparation for the time when business depression  
and unemployment reduces or wipes out its income***

**AND MAKES IT IMPOSSIBLE FOR THEM TO PAY THE INTEREST AND PRINCIPAL  
ON THEIR MORTGAGE AND DEBTS?**

***What should a family do NOW  
to protect itself***

**AGAINST THE POSSIBILITY OF THE FORECLOSURE OF ITS HOME OR FARM?**

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Many unscrupulous financial authorities have advised people to go into debt before inflation; to buy up all sorts of real estate and tangible goods on credit, and then pay off their obligations later on in depreciated money. There are two reasons why no decent human being should deliberately embark upon such a program of profiteering out of the ignorance of people who can be induced to sell their real and tangible property on such terms. The first is moral. To embark upon such a course is for a human being to turn himself into a predatory animal. The second is prudential. While there are individuals who may be shrewd enough and cunning enough to know just when to embark upon such a course, and when to stop, they are few and far between. The overwhelming majority of those who tried to profit out of this procedure during the inflation in Europe, after World War I, oversteaid the "market," and lost not only all their paper profits but whatever they may have had originally in the form of capital.

Debt is never a good thing in itself. The people of America have been grossly mis-educated during the past generation about debt. They have been taught to buy not only homes and productive property by going into debt, but luxuries like automobiles, radios, furniture and even clothing on the installment plan. To go into debt is justified ordinarily only for the purpose of buying productive property; for the purpose of acquiring property which helps to make a family independent and secure; for the purpose of buying things which will save the buyer enough money so that he can repay the debt out of his savings. A homestead is such property. If bought with intelligence, the saving between the cost of maintaining a home, and the rent which a family would otherwise have to pay for its shelter, ought to pay off the debt incurred in buying it. The same thing is true of productive land, of agricultural equipment, of live stock, of tools, of household equipment like washing machines, sewing machines, etc. Incurring debts in order to purchase things of this sort is justified provided the things purchased cut

down the cash expenditures of the family and so release cash for payment of the debt, that otherwise would have to be spent for current expenses. But even though there is this theoretical justification, it is still best to buy for cash. The practical fact is that buying for cash enables every individual to save substantial sums which otherwise would be spent for interest, and to obtain discounts which are given only to the cash buyer.

During times such as those through which we are now passing, and will pass during the next few years, the danger that unemployment, or bad business, will make it impossible to obtain cash enough with which to pay off debts — in spite of the depreciation of money — makes it necessary for every family to take special precautions against the possibility of losing the property it has already acquired, simply because it cannot meet promises made to pay interest and principal which it owes. I would urge, therefore, that no debts be incurred except those necessary in order to acquire a homestead and properly to equip it, and *that all the cash resources and surplus of the family be used for the purpose of getting out of debt.*

My advice is to pay off your mortgage now; pay off as much of it as you can if you cannot pay it all off. Use the cash you have saved; the cash you can obtain by selling your bonds, or by cancelling expensive forms of life insurance policies, to pay off the mortgage on your homestead, or at least to anticipate the payments which you will otherwise have to make during the next few years.

Ralph Borsodi

#### BIBLIOGRAPHY

The Research Division of the School of Living recommends the following books to those who wish to do further reading with regard to the various subjects discussed in this book:

##### DECENTRALIZATION

- "This Ugly Civilization," "Flight from the City," and "Prosperity and Security," by Ralph Borsodi
- "Land of the Free," by Herbert Agar
- "The Condition of Man," by Lewis Mumford
- "The Servile State," by Hillaire Belloc

##### LAND

- Bulletin No. 3, "How to Economize in Buying Land for Your Home," by the Research Division of the School of Living
- "Progress and Poverty" by Henry George
- "Enclaves of Economic Rent," by Fiske Warren
- "The Holy Earth" by Liberty Hyde Bailey
- "A Place on the Earth—A Critical Appraisal of Subsistence Homesteads," by Russell Lord and Paul H. Johnstone, published by the Bureau of Agr. Econ., U. S. Dept. of Agr.
- "Forward to the Land," by Elmer Peterson

##### MONEY

- "Other People's Money, and How the Bankers Use It," by Louis D. Brandeis
- "Cooperative Democracy," by James P. Warbasse
- "Money and Banking Illustrated by History," by Horace White
- "The Natural Economic Order," by Silvio Gessel
- "Stamp Scrip," by Irving Fisher

##### COOPERATION

- "Organized Co-operation," by John J. Dillon, the Rural New Yorker, New York City
- "Cooperative Democracy," by James P. Warbasse
- "The Lord Helps Those," by Bertram Fowler

##### EDUCATION

- "Education and Living," by Ralph Borsodi
- "Danish Folk Schools," by O. A. Campbell
- The Research Bulletins of the School of Living  
(See inside back cover)

# *what is the School of Living?*

This book is one of the publications issued under the direction of the Research Division of the School of Living of Suffern, New York. The School was established in 1934, primarily as a research institution. It is incorporated under the laws of New York. Its Research Division has published numerous Bulletins of which a partial list will be found on the next two pages of this book. Nearly \$300,000 has been spent up to the present under the direction of the School in experiments and research into problems of living in the machine age. Perhaps the best brief statement of the purposes of these studies is to be found in the Purpose Clause of the Charter of the School:

I. The general object of this Association is the study, development, promotion and demonstration of the principles and practices of normal living.

II. In furtherance of the above general object, this Association shall devote itself to the scientific study of how human beings should live and how family life and community life in America may be normalized; shall promote the organization of town and township Schools of living; shall encourage Extension assistance by Universities to the panels of local Schools of Living, and shall promote leadership by educators and professionally qualified men and women in local communities through the influence exerted by them through adult education.

For information about visits and attendance, write to Emma E. Maunsell, Clerk of the School of Living, Suffern, N. Y.

For the past four years, Mr. Borsodi has been preparing a summation of his studies of this subject to be published in three volumes under the general title of "Education and Living." The first volume will deal with "Education"; the second with "Education and Ideology"; the third with "Education and Implementation."

In 1945, as a result of a series of conferences in Chicago, the School of Living Institute was incorporated under the laws of Illinois. Carl Vrooman, of Bloomington, Ill., formerly Assistant Secretary of Agriculture, is Chancellor of the Institute. The Dean of the Institute is Mildred Jensen Loomis. The office of the Dean and headquarters of the Institute, to which correspondence should be addressed, is Brookville, Ohio. The Institute has conducted conferences and seminars in many cities, and local chapters and Schools of Living have been organized under its auspices.

One of the purposes for which the School of Living Institute of Chicago was organized is to make these findings available immediately and if possible to make them the basis of community and university planning for Adult Education for the Post-War World. The first systematic presentation of this material was made at Oberlin Seminary, Oberlin, Ohio, to a graduate group, during the week of June 26, 1944 under the sponsorship of a committee composed of Dr. Leonard A. Stidley, Oberlin, Ohio, Rev. Wm. Stewart, North Fairfield, Ohio, Mildred Jensen Loomis, Lane's End Homestead, Brookville, Ohio, and Dr. W. H. Thompson, Ohio Council of Churches, Columbus, Ohio.