CHAPTER IX

The National Swindle

WHEN I WAS MARRIED, in 1909, I earned eighteen dollars a week, and my wife managed to pay all the household bills and save a few dollars every week from this salary. But, then, as she reminded me no end of times, steak was eighteen cents a pound in those days. And I myself can remember making my midday meal on a mug of beer and a liberal "free lunch" sandwich for a nickel. While I earned more by the beginning of World War I, before Woodrow Wilson got us into it, the cost of living remained about constant and my wife indulged in certain luxuries. It was only after our government had begun to print and sell the misnamed Liberty Bonds that my wife began to complain about the price of steak and other things. Her complaints continued to mount for fifty years, with increasing emphasis.

Much has been written about inflation, particularly about its causes, and, like many another evil to which we become accustomed, there are those who maintain that it is nothing to worry about; in fact, in recent years inflation has been extolled as desirable. Yet, it is nothing but legal counterfeiting. Despite the persiflage with which the act of creating new money (or bonds, which is the same thing) is currently adorned, it is exactly like the clipping of coins and surreptitiously making new money out of the clippings, or like the infusion of cheaper metals into the minting of gold or silver coins, practiced by princes since the making of money was monopolized by government. It is a way governments have of meeting bills that, for political reasons, cannot be met by taxation. It is sheer dishonesty, a bold-faced robbery of the thrifty, a surreptitious tax. If there is any need to prove that the interests of the government are not those of its citizens, inflation supplies that need.

High prices during a war are inevitable. That is because the military consumes a large part of production, which in turn is reduced by the fact that many producers are engaged in making war. Many of the workers who would be producing the things people want are put to producing the things of war, which do not satisfy human desires. Yet, these non-productive workers have, in spite of the war, certain desires that call for gratification — food, raiment and shelter, to say nothing of beer and entertainment — and are in possession of wages with which to pay for these scarce items. A truly patriotic people would forego these gratifications willingly, and might work for wages that would buy them mere subsistence. That would hold prices down considerably. But, patriotism is something to talk about, a luxury of the spirit, for which one should not be expected to pay; during war, wages are actually forced up by the disparity of the demand for and the supply of labor. The increased wages then go to market to bid up the prices of the scarcities.

The government, having no other source of revenue, obtains the money with which to pay these workers by taxing the workers themselves, but not enough to meet the entire wage bill; that would be politically undesirable, meaning that the workers might show resentment over such a demand on their patriotism. So, the government makes up the deficit by borrowing from savers and giving them receipts for such borrowings. The receipts, or bonds, have a due date some time in the future, and, in addition, bear interest. It is said that the bonds help to pay the cost of war. But, this is not so. The war is paid for with the things that are produced during the war. The food the soldiers eat is grown and processed as they fight, and the shells they shoot are likewise made while the war is in progress. In short, the war is paid for out of current production. There is no way to shoot shells that will not be produced in twenty years, nor to eat bread that will not be baked until long after the war is over. We pay as we fight.

What, then, are the bonds for? They are merely claims on future production, issued to the owners of the things used up in the war, and which they would not give up even to save the country from defeat without this compensation. The government takes what it needs to prosecute the war—that's the only way—and hands over these interest bearing receipts as a sop to patriotism. If it did not offer these claims on future production in exchange for what it needs of the current production to carry on the war, well, the resentment might cause the war to be called off; patriotism that isn't paid for might be diluted.

Prices started to rise before we got into the war. That was because of the scarcities created by our shipping of food and manufactures to the nations already engaged in the conflict, but the higher prices were offset by the payments received from these nations; only their taxpayers suffered inconvenience. The disparity between the cost of living and wages in this country was seriously felt after we got into the war, and was accentuated by the issuance of the Liberty Bonds. Incidentally, the bonds sold so well not because of the patriotic fervor of the buyers but because the prospect of receiving interest payments was assured by the fact of the income tax, which had become law only a few years before the advent of war. When the Civil War broke out Lincoln tried to raise five millions of dollars through a bond issue that bore a *twelve percent interest rate,* and only about two-thirds of this issue was taken up; that was because he lacked an income tax or any tax measure that would assure the bondholders of receiving the promised interest. Woodrow Wilson, however, was under no such handicap; the income tax amendment was put into the Constitution during his first year in office.

Now, bonds become money. In fact, the imprint of the government of the United States makes them money as soon as issued, for that alone gives them purchasing power. True, it is hard to buy a penny newspaper—a penny was the price of a newspaper in those days—with a hundred dollar bond; but one can borrow from the bank plenty of pennies with the bond. The proceeds from the sale of bonds were used by the government to pay for war materiel at prices figured on the then value of the dollar; that is, on the value established before the dollar depreciated as a result of the issuance of bonds. It was only after the bonds got around, were turned into cash, that a swindle was discovered; the very infusion of this new money into the economy reduced the value of all the money in existence, meaning that the cost of living had risen. I remember that within a year after the conclusion of the war I was forced to cash in my hundred dollar Liberty Bonds to meet some pressing expenses and had to sell them at a twenty percent discount. Those who held their bonds until maturity got even less, for by that time the purchasing power of the dollar had further depreciated, and though they got from the government the face value of their bonds, plus interest, the proceeds fetched them far less in goods than they would have received for the dollars they had put into these bonds. That I call a swindle.

There are those who equate inflation with high prices. That is like maintaining that the wet streets caused the rain to fall. Prices may be high because of an increase of demand for certain commodities, or a decrease in the supply with demand remaining constant. Or they may reflect an increase in wages effected by the unions utilizing their monopoly powers. But, high prices due to increased demand can only be temporary, until suppliers, attracted by the high prices, are able to meet the demand with either the scarce article or with a satisfactory substitute. The same is true where the supply is diminished, as in the case of a crop failure. As for the high prices caused by uneconomic wage demands, the consumer turns to some other product or service not so affected and the unions have only priced their members out of jobs. In these cases the prices are eventually brought down by economic forces. But, the high prices caused by the infusion of new money into the economy is something else again; so long as the money remains in existence and in circulation, there is no way of bringing them down. For, everybody has a lot of money and everybody bids accordingly for the goods in the market place. Demand remaining, the high prices caused by inflation cannot be brought down.

Only the government can cause inflation, for only the government has the privilege of printing money; any private citizen trying it is courting a jail sentence. Perhaps the greatest monetary swindle in this country was perpetrated by Franklin D. Roosevelt when he abolished the gold standard in 1933. Now, there is nothing sacred about gold or a gold standard. But for several thousand years the metal has been universally used as a measure of value, and all peoples everywhere have shown a willingness to accept it in exchange for the goods or services they have to offer. It is this confidence in the exchangeability of gold, a confidence that dates back to the days before governments monopolized the making of money, that found expression in the gold standard; the government's paper money, certainly more convenient than metal money, was accepted on the condition that the holder could exchange the paper for gold. A relationship between the amount of gold in the government's possession and the amount of paper money it could issue was set up. This was a restraint on the printing presses. If the politicians went in for a spending spree and authorized the printing of dollar bills (counterfeiting) with which to defray the costs, the people could detect the fraud and take measures to stop it; for the holders of the dollar bills, realizing that these bills no longer fetched them the same amount of goods and services as they did before the fraud was perpetrated, could demand gold for the paper. Thus the government's hands were shackled.

It was this restraint on his proposed profligacy that Mr.

Roosevelt removed by abolishing the gold standard. By making the possession of gold a criminal act, he removed the possibility of the individual holder to demand gold in exchange for government paper, and thus opened the way for the printing of almost as much paper as he needed to pay for all his ventures in socialism. But the issuance of more dollar bills lowered the purchasing power of all the money in existence and had the effect of robbing the thrifty of their savings. Even the holders of government bonds were cheated, because the dollars they received at maturity were worth far less than the dollars they originally put into these government "securities."

Nevertheless, this inflationary hocus-pocus helped to re-elect Mr. Roosevelt three additional times. He used this bogus money to "enrich" large segments of the electorate who, thankful for this largess, reciprocated by casting their ballots for him. Although the manipulation was done in the name of humanity under the pseudonym of "social security," it was in fact a way of buying votes. And this has remained standard political practice since the departure of Mr. Roosevelt; every candidate for high office now deems it necessary to promise to distribute large chunks of manufactured money (of constantly decreasing purchasing power) to favored groups in return for their suffrage. The end result of this practice must be a loss of confidence in money, so that people will refuse to accept it in payment for goods or services and will return to a primitive barter system; but that eventuality is a far way off, and the politician, like the recipients of the subsidies, thinks only of the immediate profit of inflation, without regard to the effect on the economy of future generations. Any kind of economics is sound economics so long as it elects. Nor is there lacking confirmation of this theory by professorial economists who, having accepted the premise that economic law and political practice are identical, come up with long treatises and longer books in which they defend inflation.

Yet one cannot account inflation dishonest unless one assumes that the political mind is normal and that political behavior is bound by the moral code that applies to ordinary people. Such is not the case. The fact is that the political mind is *sui generis* and operates along lines that are indigenous to the business of politics. Just as there is a criminal mind so there is a political mind; neither is normal and, therefore, both must be considered pathological. Whether or not the political mentality is congenital or is acquired, an occupational hazard, is difficult to say, even as it is difficult to prove that criminality is inherent in the criminal make-up. But, it is certain that once a man gets into politics his mind works along obscure ways, none of which fit the ordinary concepts of sanity or probity. When, seeking preferment, he promises to both lower the prices of farm products to the consumer and raise the income of farmers, is he honest or is he sane? If he believes he can perform such a miracle one must conclude that his mind is disarranged. If he has in mind the creation of new money with which to subsidize the farmer, then he is dishonest; unless, of course, he does not know that inflation is dishonest; in which case either his intelligence or his rationality is brought into question.

Similarities between the criminal and the political mind can be adduced aplenty. The bank robber who, when asked why he robbed banks, said "because that is where the money is," showed the same degree of sagacity as does the congressman who puts a relative on the public payroll, or who wangles a government contract for a business in which he has an interest; both the bank robber and the congressman get where the getting is good. When President Wilson plunged us into World War I he probably believed that he was making "the world safe for democracy;" but, was he not acting under the urging of a subconscious desire for more power, just as a gang leader revels in the domination of his followers? Even the ward heeler deems a sinecure on the public payroll his due, for services rendered the party, even though a similarity between his paycheck and the proceeds of pocket picking is suggestive.

In his private life the politician acts in quite a normal manner and seems to be motivated by moral impulses. He would not, for instance, deprive a widow of one cent of her insurance money. But, in his political capacity he does not hesitate to plug for inflationary fiscal measures which have the effect of robbing the widow of the pittance left by her husband. If this is not a form of aberration, what is it?