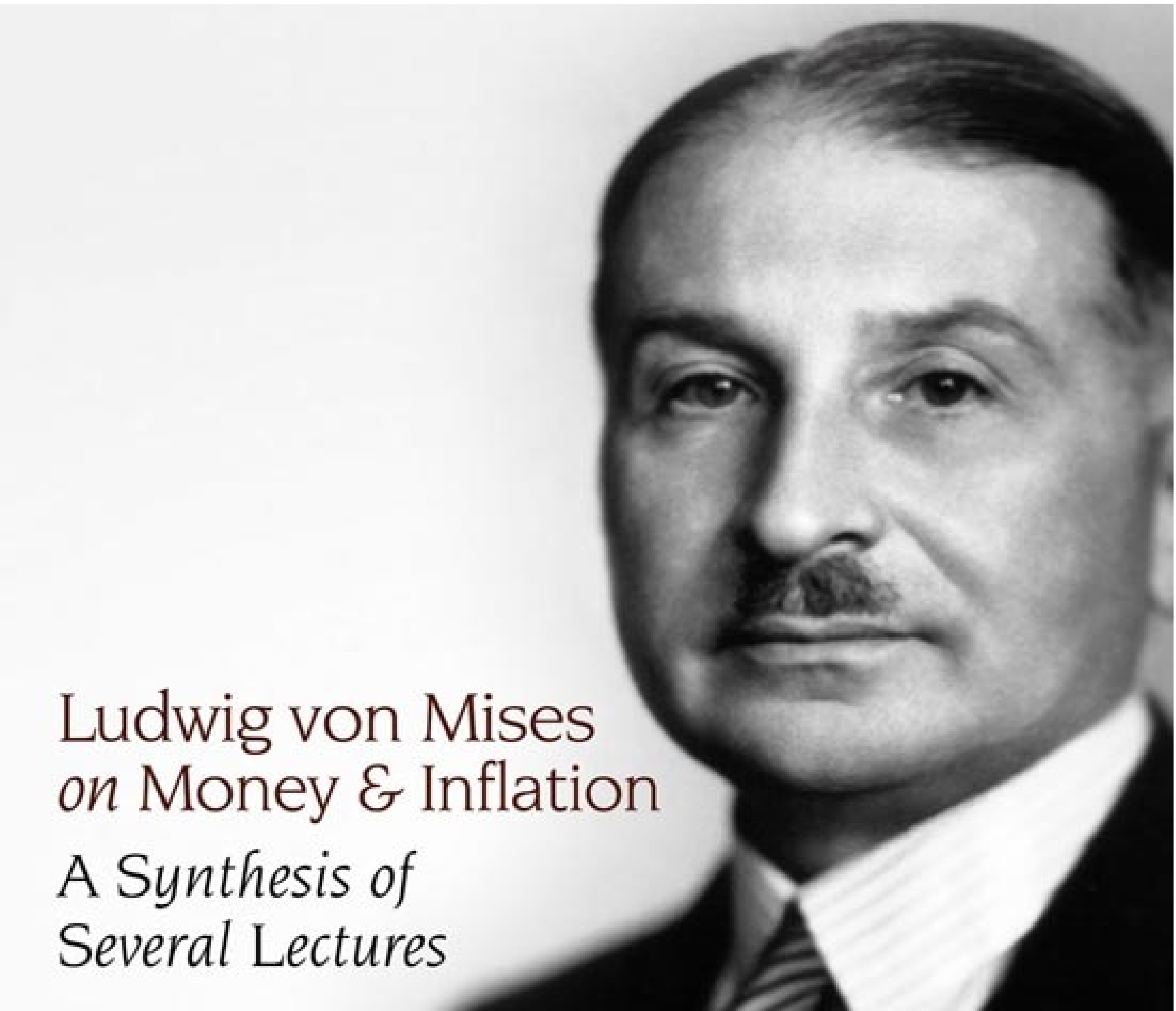

Ludwig von Mises *on* Money & Inflation

A *Synthesis of Several* Lectures

COMPILED BY BETTINA BIEN GREAVES

LUDWIG VON MISES

ON

MONEY AND INFLATION

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Upon the establishment of the Foundation for Economic Education (FEE) in 1946, Ludwig von Mis became a part-time adviser, and he served in that capacity until his death in 1973. Whenever FEE hel a seminar in Irvington, if he was in town he would drive out from New York City, where he lived wit his wife, Margit, to speak to the participants. His topic was quite often inflation. I attended all tho lectures, took them down in shorthand and later transcribed them. The thought occurred to me th eight to ten of his lectures on inflation, delivered in the 1960s, might be integrated, with th duplications deleted, and turned into a single piece. Hence this paper.

Mises did not like to have his oral remarks quoted or published because, obviously, they did n represent the care and precision he devoted to his writings. However, it does not seem to me that thes lectures, as I have edited them, misrepresent his ideas in any way. Moreover, they reveal h unpretentious manner and the informal simple style he used when talking to students. He ofte rephrased an idea in several different ways, repeating it for emphasis. He was frequently accused being “simplistic,” of making economic subjects appear too clear and simple, but it was this ve approach that made it possible for persons, even those without any background in economics, understand and appreciate what he was saying.

Bettina Bien Greav

CHAPTE
ON

Human Cooperatio

Human cooperation is different from the activities that took place under prehuman conditions in th animal kingdom and among isolated persons or groups during the primitive ages. The specific huma faculty that distinguishes man from animal is cooperation. Men cooperate. That means that, in the activities, they anticipate that activities on the part of other people will accomplish certain things order to bring about the results they are aiming at with their own work. The market is that state affairs under which I am giving something *to* you in order to receive something *from* you. I don know how many of you have some inkling, or idea, of the Latin language, but in a Lat pronouncement 2,000 years ago already, there was the best description of the market—*do ut des*— give in order that you should give. I contribute something in order that you should contribu something else. Out of this there developed human society, the market, peaceful cooperation individuals. Social cooperation means the division of labor.

The various members, the various individuals, in a society do not live their own lives without an reference or connection with other individuals. Thanks to the division of labor, we are connected wi others by working for them and by receiving and consuming what others have produced for us. As result, we have an exchange economy which consists in the cooperation of many individual Everybody produces, not only for himself alone, but for other people in the expectation that the other people will produce for him. This system requires acts of exchange.

The peaceful cooperation, the peaceful achievements of men are effected on the marke Cooperation necessarily means that people are exchanging services and goods, the products services. These exchanges bring about the market. The market is precisely the freedom of people produce, to consume, to determine what has to be produced, in whatever quantity, in whatever qualit and to whomever these products are to go. Such a free system without a market is impossible; such free system *is* the market.

We have the idea that the institutions of men are either (1) the market, exchange betwee individuals, or (2) the government, an institution which, in the minds of the many people, something superior to the market and could exist in the absence of the market. The truth is that th government—that is the recourse to violence, necessarily the recourse to violence—cannot produ anything. Everything that is produced is produced by the activities of individuals and is used on th market in order to receive something in exchange for it.

~~It is important to remember that everything that is done, everything that man has done~~, everythin
that society does, is the result of such voluntary cooperation and agreements. Social cooperatio
among men—and this means the market—is what brings about civilization and it is what has broug
about all the improvements in human conditions we are enjoying today.

CHAPTE
TWO

The Medium of Exchange—Mone

The definition of money is very simple. Money is the general medium of exchange used on th market. Money, the medium of exchange, is something that individuals choose in order to facilita the exchange of commodities. Money is a market phenomenon. What does that mean? It means th money developed on the market, and that its development and its functioning have nothing to do wi the government, the state, or with the violence exercised by governments.

The market developed what is called indirect exchange. The man who couldn't get what he wante on the market through direct exchange, through barter, took something else, something that wa considered more easily negotiable, something which he expected to trade later for what he real wanted. The market, the people on the market, the people in organizing the division of labor an bringing about the system in which one man produces shoes and another produces coats, brought abo the system in which coats can be exchanged against shoes, but only practically on account of th difference of the importance and the value, by the intermediary of money. Thus the market syste made it possible for people who could not get today what they needed, what they wanted to buy on th market, to take, in return for what they brought to trade, a medium of exchange—that mea something that was more easily used on the market than what they brought to the market to exchang With a medium of exchange, the originators of the exchange can attain satisfaction finally b acquiring those things which they themselves want to consume.

Money is a medium of exchange because people use it as such. People don't eat the money; th ask for the money because they want to use it to give it away in a new contract. And this barter trade is technically possible only if there is a medium of exchange, a money, against which he ca exchange what he has for the things he wants and needs. All the mutual givings and receivings th take place on the market, all these mutual exchanges that lead to the development of money, are th voluntary achievements of individual people.

Through a long evolution, governments, or certain groups of governments, have promoted the ide that money is not simply a market phenomenon, but that it is whatever the government calls mone But money is not what the government says. The idea of money is that it is a medium of exchang somebody who sells something and is not in a position to exchange again immediately for the thing wants to consume gets something else which he can exchange for this at a later date. This "somethi else” is a medium of exchange, because the man who sells, let us say, chickens or eggs, does not, o cannot get directly what he wants himself to consume, but must take something else which he uses at later date in order to get what he needs.

If people say that money is not the most important thing in the world, they may be perfectly rig from the point of view of the ideas that are responsible for the conduct of human affairs. But if the say that money is not important, they do not understand what money does. Money, the medium o exchange, makes it possible for everybody to attain what he wants by exchanging again and again. H may not acquire directly the things he wants to consume. But money makes it easier for the individu to satisfy his needs through other exchanges. In other words, people first exchange what they hav produced, for a medium of exchange, something which is more easily exchangeable than what the have produced; then through later exchanges, they are able to acquire the things they want to consum And this is the service which money renders to the economic system; it makes it easier for people acquire the things they want and need.

CHAPTE
THRE

The Role of the Courts and Judge

Government interference with the market and with money occurs only in cases in which individua are not prepared to do what they voluntarily promised to do. Having chosen for himself the field which he wants to work, he must barter or trade what he himself has produced in order to survive, order to obtain the things he needs to live. If the acts of exchange are such that not everybody giv and receives the goods and services contracted for at the same time, difficulties can arise. The valu and the meaning of the things which are given away and those which are received are never equal identical, not only in size and quality but also, what is still more important, as to the time period ov which an exchange is to be carried out.

If people enter into a contract, if both parties decide that something must be done immediatel there is as a rule no reason for any disagreement between the parties. Both parties to the exchang receive immediately the thing they want to acquire for what they give away. The whole act exchange is then finished; there are no further consequences. But most exchanges are not of this kin In reality there are many exchanges wherein both parties do not have to deliver immediately what th are obligated to deliver. If the parties to a contract, to an exchange, want to postpone the settlemen the execution, of their contract, differences of opinion can arise, some very serious differences opinion, concerning the correctness of one or the other party's contribution. Translated from the mo abstract language used by lawyers and economists, that means that if one man has entered into contract with another man wherein he has promised to do something at a later date, the question m arise when that time comes whether this promise was really executed correctly according to the ten of the contract.

Money is a medium of exchange, a phenomenon that developed out of the market. Money is t result of an historical evolution that, in the course of many hundreds and thousands of years broug about the use of exchange through the intermediary of a medium of exchange. Money is the general accepted and generally used medium of exchange; it is not something created by the government; it something created by the people buying and selling on the market. But if people don't comply wi their voluntarily accepted agreements, then the government has to interfere. And in any interference the government, the government has to find out before it interferes whether there really was violation of voluntarily entered contracts. Such contracts are the results of agreements, and if t people do not comply with what they have promised then it is the state that has to interfere in order prevent individuals from resorting to violence. The government is called on to protect the mark against people who don't want to comply with the obligations which they have to fulfill under th market, and among these obligations is the obligation of making payments in definite sums of mone If somebody wants to appeal for government interference against other people because these oth people failed to comply with what they had accepted voluntarily as an agreement, then it is the duty the government, of the courts, of the judges, to determine what money is and what it is not. Now wh governments did, what governments had done for thousands of years, we could say, is to misuse th position this gives them in order to declare as money what is *not* money, or what has a low purchasing power per individual piece.

The market, the real social institution, the fundamental social institution, has one terrif weakness. The weakness is not in the institution of the market but in the human beings who a operating on the market. There are people who do not want to comply with the fundamental princip of the market—voluntary agreement and action according to voluntary agreement. There are peop who resort to violence. And there are people who do not comply with the obligations which they hav voluntarily accepted in agreement with other people. The market, the fundamental human soci institution cannot exist if there is not an institution that protects it against those people who eith resort to violence or who are not prepared to comply with the obligations which they have voluntari accepted. This institution is the state, the police power of the state, the power to resort to violence order to prevent other people, ordinary men, from resorting to violence.

Now, violence is a bad thing. The fact that violence is necessary, that it is indispensable in som situations, such as in settling disputes concerning contracts, does not make the institution imposi the violence, the government, a good institution. Nevertheless, the idea prevails, more or le throughout the whole world that, on the one hand, government, the institution that resorts to violenc is a great and a good thing, and that, on the other hand, the market, the system of voluntary soci cooperation, though perhaps necessary—although most people don't even realize this—is certain not something which must be considered good.

Now everything that human action has achieved is the outcome of the voluntary cooperation men. What the government does, or what the government ought to do, is to protect these activiti from people who do not comply with the rules that are necessary for the preservation of human socie and all that it produces. As a matter of fact, the government's main function, or let us say even its *on* function, is to preserve the system of voluntary action or cooperation among people by preventi people from resorting to violence. What the government has to do with respect to this medium exchange is only to prevent people from refusing to comply with the commitments they have mad This is *not* a function of building something; it is a function of protecting those who are building.

Among the things refractory individuals sometimes do is to fail to fulfill their obligations und market agreements. To say it very simply, an individual made an agreement, and yet this individu does not comply with his obligations under that agreement. Then it is necessary to resort government action. What can you do if the other party to an agreement says, "Yes, I know. I receive something from you under an agreement by which I was bound to give you something in exchang But I shan't give it to you. I am a bad man. What can you do about it? You must just grin and bear it Or it is possible that the person who has to deliver at a later time says, "I'm sorry but I cannot, or will not, deliver." This makes the whole market system of exchanges, the whole system based upo the voluntary actions of individuals, break down.

If a man has offered in a contract to deliver potatoes in three months, for instance, the questi may come up when he delivers whether what he gives the buyer really is potatoes in the meaning the ~~contract. The party who was bound to deliver potatoes may have delivered something th~~at th second party does not consider potatoes. Then the second party says, “When we made an agreeme concerning potatoes we had something else in mind. We had something in mind that had certai qualities which these potatoes don’t have.” Then it is the duty of the government, of the judge who the government appoints for this purpose, to find out whether or not these questionable potatoes a really what was understood by the contracting parties to be “potatoes.” They must not be spoiled; the must be of a certain character; they must be potatoes according to commercial usage; and so on. Th may be potatoes from the point of view of a professor of botany but not potatoes from the point view of the businessman. This is something which trade usage determines everywhere. The judg cannot be familiar with everything that is going on in the world and, therefore, he very often needs th advice of an expert. The expert must say whether or not the potatoes in question should really b considered the kind of potatoes meant in the agreement. And then it is the business of the judge consider the expert’s advice and to determine whether what has been delivered really is potatoes whether they are something else.

Agreements concerning products such as potatoes—or anything else for that matter, wheat, fo instance—which are made regularly on the market through the intermediary of a medium of exchang popularly called “money,” can be violated, as we have seen, on the commodity side. But they can als be violated on the side of the money. That means that a conflict, a difference of opinion, may aris between the two parties to a contract concerning the money which has to be paid to comply with th contract. And then the government, the judges, must determine whether what is offered under th name of money in this case is really what the people had in mind when they made the contrac Government was not directly involved in the development of money; the task of the government this connection is simply to see that people *fulfill* the terms of their contracts with respect to th money. Just as the judge can say what is, or what is not, meant in the contract by the term “potatoe or “wheat,” so under special conditions, to preserve peaceful conditions in the country, the judge mu determine what was meant when the parties to a contract mentioned “money.” What did the people u as a medium of exchange? What did they have in mind in their contract when they said, “I will pa you certain units of ‘money’ when you do what you have promised.” Whether these units are calle dollars, or thalers, or marks, or pounds doesn’t matter; the government has only to find out what th meaning of the contract was.

This is what government has to decide. The government does not have the power to call somethin “money” which the parties didn’t have in mind as money when concluding their contract any mo than it has the power to call non-potatoes “potatoes,” or to call a piece of iron, let us say, “copper.” is *not* that the government says what money is originally; it is just that it must say what is meant b “money” in the case of the contract that is in conflict. I have to say all these things in order to poi out something people do not seem to know today, namely that money is *not* created by governmen People today don’t know this because the étatist, statist, ideas about the market and about money hav destroyed knowledge of how money is created.

It is only in dealing with the problem of whether or not the money obligations in contracts hav been filled that the government or, let us say, the judge, has anything to say about money. It is only i this way that the government comes into touch, originally into touch, with money—just as it com into touch with everything else, that is with potatoes, wheat, apples, motor cars, and so on. Therefor it is not true that money is something derived from the government, that the government is sovereig with regard to money, and that it can say what money is. It is not true that the government relationship to money is different from what it is to other things. Money is a product of mark agreements just as is everything else that enters into exchange agreements.

If a judge were to say that whatever the government calls a horse is whatever the government cal a horse, and that the government has the right to call a chicken a horse, everybody would consider hi either corrupt or insane. Yet in the course of a very long evolution, the government has converted th situation that the government must settle disputes concerning the meaning of “money” as referred in contracts, into another situation. Over centuries many governments and many theories of law hav brought about the doctrine that money, one side of most exchange agreements, is whatever th government calls money. The governments are pretending to have the right to do what this doctrin tells them, that is to declare anything, even a piece of paper, “money.” And this is the root of th monetary problem.

This makes it possible to do anything with money, to falsify it, or to debase it, in any way yo want so long as you have the government, its judges and its executioners on your side. And therefore system developed which is very well known to everybody. The government presumes that it is th government’s right, duty and privilege to declare what money is and to manufacture this money. Th system brings about a situation in which it is possible for the government to do anything it want anything that can be done with money. And this creates a situation in which the government uses i power to print and to coin money for such purposes as increasing the means, the purchasing powe with which it appears on the market.

CHAPTE
FOU

Gold as Mone

Now, we must realize that historically people everywhere used at the beginning a definite type o commodity as a medium of exchange. Sometimes you find mentioned in books what kinds of good and commodities were used in different countries at different ages as a general medium of exchang as money. People once chose various kinds of commodities as media of exchange, as intermediari between sellers and buyers. These commodities which they chose were commodities which we available in limited quantities only. If something is available in sufficient quantity to meet a possible kinds of demand, or can be increased in quantity in such a way as to meet all possible kin of demand, then it doesn't have any value in exchange. *Only something that is available in a limite quantity can have exchange value, can be considered as valuable by people*.

Over centuries traders eliminated everything else from among the various articles a commodities used as media of exchange until only the precious metals—gold and silver—remaine All other commodities were eliminated as media of exchange. When I say that the other things we eliminated from being used as money, what I mean is that people in making agreements eliminate them; people in making agreements rejected other things as media of exchange and turned to usi only gold and silver; they specified gold and silver in the contracts they made when trading with oth parties. Thus we must realize that the evolution to gold and silver money was brought about by priva persons. Then silver also disappeared as a medium of exchange in the last centuries and the fa remained that the commodity gold was used as the medium of exchange. The function of th government consisted of producing small pieces of this medium of exchange, the weight and conte of which was determined by the government offices and acknowledged by the laws and by the courts cannot enter into the whole history of money. But what resulted was the gold standard. The system o the gold standard, the gold exchange standard, is practically the only monetary system in the worl This was not done by governments; it was done through the market; it was done by parties exchangi on the market.

In the history of money, which is identical with the history of government attempts to destr money, we must distinguish two great periods. And these two periods are not separated from on another by some monetary fact or by some specific monetary problem—they are separated from on another by the great invention made in the 15th century by a man named Gutenberg. If th governments need more money—and they always need more money because they don't earn it—th simplest way for them to increase the quantity of money since Gutenberg is just to print it.

Just as the government says "dollar"—but let us not use the term of a country with money whic still functions today—let us say "ducats." You have agreed upon a definite quantity of ducats. An then, because the government doesn't want to restrict its expenditures, it declares: "What I hav printed in my printing office, in my government printing office and called a Ducat is also a Ducat, th same thing as a gold Ducat." These things started when there were private banks to which th government gave privileges. At the time you made this agreement a Ducat meant a definite quantity o gold. But the government now says it is something else. When the government does this, the situatio is similar to what it would be if you agreed to deliver a horse to another party but instead of a hor you delivered a chicken, saying, "This is all right … I say that this chicken means a horse." It is such system that destroys the markets, you know.

I want to say something about the reason why the gold standard was adopted in the first place an also why today it is considered as the only really sound system of money. It is because gold alon makes the determination of the purchasing power of the monetary unit independent of the changes ideas of governments and political parties. Gold has one advantage. It cannot be printed. It cannot b increased *ad libitum* [at pleasure]. If you think that you, or an institution with which you are connecte doesn't have enough gold money, you cannot do anything about it that would increase the quantity o gold money in a very simple and cheap way. The reason why there is the gold standard, why the go standard was accepted, is that an increase in the quantity of gold costs money. Gold is restricted; it limited by nature; the production of an additional quantity of gold is not cheaper than the acquisitio of such a quantity by exchanges on the market. That means that the metal gold was used as a mediu of exchange.

Governments and writers for governments make fun of the fact that the world, the nations of th world, consider gold as money. They say a lot of things against the gold standard. But what they say not what matters. What matters is that, without any interference on the part of a central authorit without any government action, individuals chose gold as "money" through the process of trading o the market. People make jokes about the uselessness of gold. It is just a silly yellow metal. We can eat it, they say. It is only good for dentists and for unimportant things like jewelry. There are peop who say, "Why gold? Why use precisely this yellow metal as money? Leave the gold to the dentist Don't use it for monetary purposes." Now I do not have the right to talk about the dentists; I use th dentists only as an illustration. Whether *they* want the gold is another question. Lord Keynes called th gold standard a "barbarous relic." Many books say that the government had to step in because the go standard failed. But the gold standard didn't fail! The government abolished the gold standard b making it illegal to hold gold. But still today, all international trade is calculated in gold. Critics hav no valid arguments against the gold standard because the gold standard works while the paper standa of the government does not work, not even in a way which the government itself conside satisfactory.

The advantage of this gold money system, as of every system of nongovernmental money, is th an increase in the quantity of money does not depend on decisions of the government. The advanta of the gold standard is that the quantity of gold available is independent of the actions, the wishes, th projects and, I would say, of the "crimes," of the various governments. Gold may not be an ide money, certainly not; there are no ideals in the world of reality. But we can use gold as a medium o exchange because the quantity of gold is by and large limited and the production of addition quantities requires expenditures that do not influence the purchasing power of the already existin

gold to a greater extent than such changes are occurring daily again and again in everything. We ca
~~therefore live, we can therefore exist, with the system of gold money. With gold money, there~~ is n
danger that a great revolution in prices will be brought about. The advantage of the gold standard
not that gold is yellow and shiny and heavy, but on account of the fact that the production of gold, lik
the production of everything else, depends on actors who cannot be manipulated by the government
the way in which the government can manipulate the production of government paper money. Whe
the government prints a piece of paper, it doesn't cost more to print "100" than it does to print "10"
"1" on this same piece of paper. And the market situation, the situation for all human exchanges, th
whole economic system is undermined, destroyed, by the governments when they consider it advisab
to increase the quantity of money by increasing the quantity of government money.

The monetary crisis, the monetary problem which faces the world today is due to the fact that th
governments think they are free to do anything they want with regard to money, you know. Not onl
do individuals sometimes fail to fulfill promises they have made, but governments do the same. The
have already used practically all possible methods of trying to evade the necessity of paying what the
have promised. And this is the problem which we have now.

Legal tender legislation made it impossible for anybody to refuse to accept the paper money. Gol
clauses were written into some contracts by some people in the attempt to protect them against th
legal tender laws which would force them to accept paper. To give an example, there is a country i
Europe, a very nice country with a great history, considered even today as one of the most civilize
countries of the world. I don't want to give the name of the nation, but let us call it Utopia.[1] Th
country issued a loan, a public loan. On every page of this loan there was inscribed: "This governme
promises to pay 20 pieces of Utopian gold money, that is a definite quantity of gold coins in th
coinage of this nation, that amount in gold, or an equivalent quantity in American dollars redeemab
in gold according to the McKinley standard." The man who bought this obligation, this letter
indebtedness, would have said: "I am really protected against all accidents. It has happened in the pa
that a country did not pay the same weight of gold which it had promised to pay. But now I have th
promise not only of being paid in gold, but I also have the power to choose. I can ask them to pay m
in the Utopian national currency, or the equivalent in American dollars, which are redeemable i
gold." Then in 1933 the United States changed the "price" of gold, as you know; it reduced the ratio
gold to the U.S. dollar. In 1935 the U.S. Supreme Court ruled[2] that, as the bondholders had receive
payment in legal tender notes, they could not show damage and would not be paid in gold. Th
country of Utopia said, "We also accept this new 'price.' We will pay you, the bondholder, only th
lower quantity of gold according to the new American law, a law which didn't exist at the time w
sold you this obligation when we bound ourselves to pay to you." That means the right of governmen
concerning money is considered as something quite special today, something which is not subject t
the general conditions and practices of the market economy. This precisely is the reason for th
monetary problem which we now have.

All this was possible only on account of the fact that government is the institution that determin
what the agreements between the citizens mean, what the content of these agreements ar
Government has the power to force people who, according to their government's declaration, do n
comply with their agreement to pay the sums required. And as the government assumes, necessaril
that the courts should have the power to declare whether or not the parties have complied with a
agreement concluded between them, so do the governments presume that they alone have the power
declare what money is and what money is not. Just as the courts have to determine if there is a confli
between the parties to an agreement as to whether a certain thing referred to in a contract is wool, f

instance, or is not wool, so do the governments presume to say whether a certain thing is money or not ~~money of a certain definite quantity. And in this way, again and again, governments~~ hav destroyed the markets of the world. And in destroying the markets they have gone so far as to destro completely the system of money, making it necessary to develop a new monetary system.

What we have to realize is this: Every kind of human arrangement is connected in some way other with money payments. And, therefore if you destroy the monetary system of a country or of th whole world, you are destroying much more than simply one aspect. When you destroy the moneta system, you are destroying in some regards the basis of all interhuman relations. If one talks money, one talks about a field in which governments were doing the very worst thing which could b done, destroying the market, destroying human cooperation, destroying all peaceful relations betwe men.

The fact is that with the gold standard it is possible to have a monetary standard that cannot b destroyed by the governments. There is no reason to give to the governments greater influence ov monetary problems. While it is really absolutely correct to say that it is just an accident that it precisely gold and not something else that serves this monetary purpose, the fact is that with the go standard it is impossible for governments to destroy the monetary system. On the other hand, *there nothing easier for governments to do than to destroy a system of money which is based upon too muc confidence in the government*.

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[1] Speaking on another occasion (April 30, 1953 at his NYU seminar), Mises was not so discreet; there he identified the coun whose bonds he was discussing as Sweden. —**BBG**

[2] The majority of the Court found on February 18, 1935 in the Gold Clause cases that the plaintiffs had not been harmed by t abrogation of the gold clause because they did not show that in relation to buying power they had sustained any loss whatsoev —**BBG**

CHAPTE
FIV

Gold Inflatio

The gold standard is due to an accident, a geological accident, I would say, that there is only a limite quantity available. Because its quantity is limited, it has value on the market so that we can deal wi it as money. The main thing with regard to money is the question, how to restrict, how not to increas its quantity.

You know gold too can increase in quantity even if you have the gold standard. In the last 20 years it happened again and again that the increase, that the discovery of new fields in which gol additional quantities of gold, could be produced, brought about a slight drop in the purchasing pow of every gold unit as against the purchasing power of the gold unit which would have remained in th absence of this new discovery. This same tendency toward higher prices was then brought about n only by an increase in the quantity of paper money but also by an increase in the quantity of preciou metals. For instance, in the years 1848 to 1849, there was discovered gold in California and Australi For a definite period a new quantity of gold, above the regular yearly increase in the production gold, was flowing into the market. Lots of people went to these gold fields, tried to mine gold, ar when they did find gold they spent it. The result, therefore, was that these gold miners took away fro the markets more produced goods than they had taken before.

If, for instance, a poor man, who had not formerly consumed very much, went to California Australia, and had some success in gold mining, he was then able to buy things with his gold and live in a very comfortable manner. Within a very short time, within a few months or years, ther developed towns in California, places where the gold miners lived very agreeable lives. The go miners received in exchange for the gold real things. Where only a short time before there had bee nothing but forests and swamps, there were cities, houses, furniture and imported bottles champagne. And where did all these things come from? From the rest of the world. And what did th rest of the world, the producers and suppliers of the goods and services get in exchange for the thing the gold miners bought? Higher prices! They received gold, of course, but they had to pay more for th things they wanted to buy. The effect of these great gold discoveries was that the purchasing power each individual piece of gold was now lower than it would have been in the absence of the go discoveries. You can, if you want, call it “inflation;” it brought about effects similar to those of paper money inflation.

That is, in the middle of the 19th century the new gold discoveries brought about what peop ~~considered at that time as a price revolution, or something like that. But the production of addition~~ money, gold money, was limited; it was almost without any quantitative influence upon the gre markets of the whole world. When the only real money which was used was gold money or bills whic were redeemable, convertible into gold, bills giving you the right to get a quantity of money, then the quantity of gold was increasing, there was a drop in its purchasing power. And adjustments wer taking place which were necessary in order to bring this in order. But this drop in purchasing pow was limited because the additional quantities of gold were very soon integrated into the who monetary system and there were no farther extraordinary increases in the quantity of money. No these gold discoveries are exceptional cases and we do not have to deal with them.

People may make jokes about the gold standard, suggesting that one should leave the gold to th dentists, that gold is absolutely unnecessary for money, and that besides it is a waste of money an work to use as money something that has to be produced at such a high cost as gold. But the go standard has one quality, one virtue; it is that gold cannot be printed, and that gold cannot be produce in a cheaper way by any governmental committee, institution, office, international office, or so o This is the *only* justification for the gold standard. One has tried again and again to find some metho to substitute these qualities of gold in some other way. But all these methods have failed, and will ev fail precisely as long as the governments are committed to the idea that it is all right for a governme that has not collected enough money to pay its expenses by taxing its citizens, or from borrowing o the market, that it is all right for such a government to increase the quantity of money simply b printing it.

Now there is a doctrine that says there is not enough gold. The reason why these critics of gold a against the gold standard is due to their belief that the quantity of money must be increased. Now th quantity of money adjusts itself necessarily through prices to the demands of the public. Yet, there ar authors, professors, textbook writers, who tell us there is not enough money and they suggest a pap currency and regular yearly increases in the quantity of money. They don’t know what they are talkin about. Some of these textbook authors give another figure in every new edition of their textbooks b which they want to increase the quantity of money. In one edition they say 5%, in the next edition the say 8%, and so on. If a professor says that we should have a paper currency and that every year th government should add 8%, or 10%, or 5% additional new money, he does not give us a fu description of what has to be done. This is perhaps an interesting fact to help us realize, let us say, th mentality of these authors, but it is not the problem which we have to deal with. The question is *ho* the government should bring this money into circulation, to whom should it be given. What we have realize is that the increase in the quantity of money cannot be neutral with regard to the conditions the various individuals.

It is, of course, rather puzzling that one has no other method of organizing the system exchanges than by the use of a definite metal, a yellow metal, gold. One may ask the question: “Wh would have happened if there hadn’t been any gold?” Or one may ask the question: “What will happe one day,” nobody can say anything today about it, “if people discover a method to produce gold such a cheap price that gold will no longer be useful for the monetary purpose?” To this question, answer: “Ask me again when this is the case.” Perhaps—I don’t know, nobody knows—perhaps on day people will discover a method of producing gold out of nothing, or, let us say, out of non-gol Perhaps gold will become as plentiful as air, and free to everyone. If everyone could have as muc gold as he wanted, it would have no value on the market. No one would then be willing to take such value-less commodity in trade for other goods or services and it would not then become a “medium exchange.” If you have sleepless nights and have nothing else to think about, you could think abo ~~what will happen, you know, if one day gold could be produced in such a cheap way as, let~~ us sa paper can be produced today. It *could* happen! But nobody thinks it will happen. It probably will n happen. But if it does happen then people will have to deal with the new problem. And perhaps the will solve it; perhaps they will not solve it; we don’t know that today. But it is useless today t speculate what will happen, if this should happen. And as we don’t know anything about what th conditions will be at that time, we can say, “Let us wait. Let us wait to see whether really one day go will be so abundant that it can no longer serve monetary purposes.” All right. If this should happe the people living then—at that time—would have a problem to solve. But today we have anoth problem. Our problem is to keep the quantity of money from being increased and its purchasing pow from being decreased through inflation.

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The first rule, or the only rule which we have to teach to everybody in explaining the problems money is that an increase in the quantity of money brings about for the group, for the people, for t society, for the king, for the emperor who does it, a temporary improvement of the situation. But if s why do it today only and not repeat it tomorrow? This is the only question. And this is the problem inflation.

The problem is not to increase the quantity of money. The problem is to increase the quantity those things which can be bought with money. And if you are increasing the quantity of money, an you are not increasing the quantity of things which can be bought with money, you are only increasi the prices which are paid for them. And in time, if the increase in money continues, the whole syste becomes a system without any meaning and really without any possible method of dealing with it.

Unfortunately we are living in a period in which many governments say, if we don’t have enou money for something and if we don’t want to tax people because the people don’t want to pay tax for this purpose, then let us add a little bit, a little bit of paper money, not very much, just a little bi you know. I would like to attack the problem from another point of view and say: “There is nothing the world *less* fit to serve as money than paper, printed paper.” Nothing is cheaper. And practicall what we have to say is that the governments are destroying the whole economic system of the mark economy by destroying the monetary system. One could compare this printing of paper money, an people have, with what has happened in the field of the use of various drugs. Just as when you start use certain drugs you don’t know when to stop nor how to stop, it is the same with the printing paper money, the governments don’t know when nor how to stop.

Prices are going up because there is an additional quantity of money, asking, searching for a no increased quantity of commodities. And the newspapers or the theorists call the higher price “inflation.” But the inflation is not the higher prices; the inflation is the new money pumped into th market. It is this new money that then inflates the prices. And the government asks, “What happene How should one man know? How should I, the man in the department of finance, know that th additional money is really spent and that this spending must raise prices because the quantity of goo did not increase?” The government is very innocent. It doesn’t know what happened, you kno because this happened in another department of the government.

And the governments try to find somebody who is responsible—but not the government. The consider the man who *asks* for higher prices responsible. But he *must* ask for higher prices becau there are now more people wanting to buy his produce, you know. He has 100 units to sell each at pieces of money. And now people are coming—not with 500 but with 600 pieces of money in the pockets—and the buyers must, therefore, in order to prevent other men from getting the things th want, pay higher prices. Now we have the inflation.

Years ago, many, many years ago—60 years ago—I wrote my first essay dealing with th problems of money. It was a study about the inflation in Austria and the way in which one day th government decided to abandon the inflation and to return to stable money in spite of the very heav opposition of the party that was dedicated to the brilliant old system of inflation. I gave this essay my teacher, Böhm-Bawerk, for publication in his economic magazine which he published with som friends. And one of his friends, a former Minister of Finance, Dr. Ernst von Plener, having read th manuscript, invited me to talk with him about the manuscript, about the problem. He was ve interested in view of the fact that he was one of the Ministers of Finance dealt with in this essay. W had a very interesting conversation and at the end of this conversation, Dr. von Plener said, “It’s very interesting study that you have given to our magazine. But I am astonished that a young man lik you is interested in a problem of the past like inflation. There was *really*, in the 19th century, almost every country of the world, inflation. But it will *not* return. This will *never* come again. Ca you imagine that the British Empire, Germany, France, the United States, will go off the go standard? No! Impossible! And the fact that *these* countries will keep to the gold standard will for all the other nations also to remain with the gold standard.”

I said, “I would like to be of your opinion. But as I look around in the literature about money ar what is being written and published *every* day, also in the United States, also in England, and so o about this problem, then I see, or I believe I see, a tendency toward a return to these problems inflation.” And I think I was right! Twenty years later, after the First World War, after all those thing that had happened after the War, Dr. von Plener told me, “Remember our conversation. You were rig and I was wrong. But your opinion would have been better advice for these countries.” I admitted th without any difficulty. And I would have to admit it today again.

In the years after the First World War, American economists frequently visited Vienna and I ha the pleasure of talking with them, and explaining inflation and conditions as they prevailed at th time in Austria and in other European countries. And, as you know, when people are talking abou economic problems, they are talking and talking until finally it is late in the evening, very late in th evening. And so it was. Then I told them, “I will now give you an explanation as to why conditions the country are not so satisfactory. I will take you for a little walk to the center of the city, past definite building.” This was at n o’clock or midnight. And we went. It was very quiet. But then the heard a noise, the sound of the printing machines that were printing banknotes day and night for th government. The result in Vienna was very modest you know; the American dollar which had bee five Austrian crowns became 14,000 or 17,000 Austrian crowns. The inflation was bad, you are righ But this was a very modest inflation; the achievement of inflation in Germany was much greater yo know. It took billions of marks you know to make one U.S. dollar. You consider this a joke, but it wa a tragedy of course. For the people whose property it destroyed, it was a catastrophe.

Inflation today is probably the most important phenomenon in political life and politic conditions. Fortunately there is still in this country, and I hope it will succeed one day, a ver reasonable opposition against inflationary measures. But for many governments it is simply a questio of being in a situation of needing more money and they think it is perfectly reasonable to increase th

quantity of money. If we want to have a system of money that works and operates, one must n
~~increase the quantity of money without realizing at every step that one is approaching~~ a ve
dangerous point, the point at which the whole thing breaks down. You will say that this is somethin
very general; what reference does it have to the problems of daily policies, monetary policies. It has
very important reference. The reference is that when you are operating with something that can be
deadly poison, not always but it can be, then you must be very careful. You must be very careful not t
go to a certain point. This is something which one may also say about all the medicines that influen
the nerves and minds of people. The doctor saves the lives of some people by giving them son
chemical in a quantity which he precisely determines and knows. And if the quantity were increase
up to a certain point, then the same chemical would be a deadly poison.

We have a similar situation with inflation. Where does inflation start? It starts as soon as yo
increase the quantity of money. And where does the danger point begin? That is another problem. Th
question cannot be answered precisely. People must realize that you cannot give a statesman advic
"This is the point up to which you may go and beyond this point you may not go, and so on, yo
know." Life is not as simple as that. But what we have to realize, what we have to know when we a
dealing with money and monetary problems, is always the same. We have to realize that the increas
in the quantity of money, the increase of those things which have the power to be used for monetar
purposes, must be restricted at every point.

The real problem is that we have a quantity of money in most countries, including the Unit
States, a quantity that is continually increasing. And the effect of this increase is that prices o
commodities and services are going up and people are asking for higher wages. And the governme
says this is "an inflationary pressure." I see this word a hundred times everyday in the newspapers, b
I don't know what "an inflationary pressure" is. There is no such thing as "an inflationary pressure
Nothing is inflationary except an increase in the quantity of money. Either there *is* an increase in th
quantity of money, or there is *no* increase in the quantity of money.

There is a practical solution from the theoretical point of view—the gold standard. As long as w
are using as a medium of exchange the precious metal gold, we have under present day conditions n
special problems to deal with. But as soon as we are increasing the quantity of paper money, as soo
as we say, "A little bit more, it doesn't matter, and so on," then we are entering a field in which th
problems become very different. We can have today a rather satisfactory system of monetar
payments when we accept the idea that gold can be used as a medium of exchange without an
restrictions. But then we may say theoretically from the point of view of clear fine theories, this is n
very satisfactory. Perhaps! But it is very satisfactory from the point of view of the operation of
monetary system and the market. And this is what counts.