

## Contents

<b>FOUR LAW DRAFTS</b>	<b>3</b>
INTRODUCTION	3
A SUMMARY OF THE TEACHINGS OF THE GERMAN SCHOOL ON MONEY	5
Original Introduction to the Four Law Drafts	9
<b>I. DRAFT OF A LAW ON STABLE VALUE RECKONING AND RELIEVING THE GERMAN CENTRAL BANK</b>	<b>10</b>
Chapter I	10
Chapter II	11
Chapter III	12
<b>II. DRAFT OF A LAW ON REICH TREASURY NOTES</b>	<b>13</b>
<b>III. DRAFT OF A LAW TO FACILITATE TAX PAYMENTS WITH DEBT CERTIFICATES AND LEDGER CLAIMS</b>	<b>15</b>
<b>IV. DRAFT OF A LAW ON CLEARING BANKS</b>	<b>17</b>
<b>JUSTIFICATION OF THE FOUR LAW DRAFTS BY DR. WALTER ZANDER</b>	<b>19</b>
INTRODUCTION: THE PRESENT SITUATION. ALL PREVIOUS MEASURES WERE MERELY ADAPTIVE	19
CHAPTER I: AGAINST INFLATION	20
CHAPTER II: THE FINANCING OF THE PUBLIC AND THE PRIVATE SECTOR OF THE ECONOMY MUST BE SEPARATED AGAIN.	22
CHAPTER III: FINANCING OF THE TREASURY	25
1. WHAT IS THE PRESENT SITUATION OF THE TREASURY?	25
2. WHAT POSSIBILITIES EXIST FOR RAISING MONEY?	25
3. THE DRAFT OF A LAW ON TREASURY NOTES	26
4. THE DRAFT OF A LAW TO FACILITATE TAX PAYMENTS WITH DEBT CERTIFICATES AND LEDGER CLAIMS	28
SUMMARIZING REMARK	29
CHAPTER IV: FINANCING OF THE PRIVATE ECONOMY	29
1. THE REICHSBANK	29
2. CLEARING BANKS	30
SOME REMARKS ON DETAILS	31
Dr. Walter Zander	32
<b>FOUR LAW DRAFTS BY DR. BEST</b>	<b>34</b>
<b>I. FUNDAMENTAL BREAK WITH THE PRESENT SYSTEM OF POLITICAL ECONOMY</b>	<b>34</b>
<b>II. CONFRONTATION OF THE TWO GOVERNMENT SYSTEMS IN THREE PRINCIPLES</b>	<b>34</b>
1. LEGAL TENDER (THE PRINCIPLE OF COMPULSORY ACCEPTANCE)	34
2. CENTRALIZATION	34
3. THE IDEA OF AN HONEST STATE	35
<b>III. THE MAIN IDEAS OF THE 4 LAW DRAFTS</b>	<b>36</b>
1. THE PRESENT SITUATION AS A STARTING POINT	36
2. THE RESTORATION OF THE SHORT TERM CREDIT OF THE REICH THROUGH THE ISSUE OF NON-INFLATABLE TREASURY NOTES	37
3. THE REICH AS AN RE-INSURANCE AGENT OF THE PEOPLE AGAINST INFLATION. A REICH LOAN WITH THE HOARDED STOCKS OF NOTES	37
4. THE RESTORATION OF THE LONG TERM CREDIT OF THE REICH	38
5. CLEARING BANKS ISSUING CHEQUE MONEY	38
6. VALUE PRESERVING ACCOUNTING AND NON-INFLATABLE CURRENCY, ACCORDING TO THE PRUSSIAN-GERMAN SYSTEM	40
7. THE RECOVERY OF THE REICHSBANK AND THE DEPOSIT SYSTEM	41
REMARKS	43
<b>FOUR LAW DRAFTS IN GERMAN</b>	<b>49</b>

**FOUR LAW DRAFTS  
TO FIGHT DEFLATION  
PREVENT INFLATION  
AND LOWER INTEREST RATES  
TOGETHER WITH THEIR JUSTIFICATION**

The following law drafts were the result of collaboration. They form a unified whole.  
The justification was written by Dr. Walter Zander in commission by the other authors.

Berlin, May 12th, 1932

Dr. Gustav Ramin, Prof. Dr. Heinrich Rittershausen, Prof. Dr. Egbert Munzer, Ulrich von Beckerath, Dr. Hans Meis, Dr. Walter Unger, Dr. Walter Zander.

---

All authors of the Four Law Drafts are deceased by now.

Other works of Prof. Dr. Rittershausen:

<http://www.reinventingmoney.com/rittershausen.php> (English),  
<http://www.reinventingmoney.com/rittershausenGerman.php> (German),  
<http://www.reinventingmoney.com/rittershausenBiography.php> (Biography)

Other works of Ulrich von Beckerath:

<http://www.reinventingmoney.com/beckerath.php> (English) and  
<http://www.reinventingmoney.com/beckerathGerman.php> (German).

Other works of Dr. Walter Unger:

[http://www.reinventingmoney.com/beckerath/012Wertmessung%20Unger\\_291-295.htm](http://www.reinventingmoney.com/beckerath/012Wertmessung%20Unger_291-295.htm).

Other works of Dr. Walter Zander:

<http://www.reinventingmoney.com/zander.php> and <http://www.walterzander.info/>.

---

First published in May 1932 in German as a manuscript, republished 1979 by Libertarian Microfiche Publishing, in the "Peace Plans" series, for the RESEARCH CENTRE FOR MONETARY AND FINANCIAL FREEDOM, Sec. John Zube, 35 Oxley St. or P.O.Box 52, Berrima, NSW 2577, Tel. (02) 48 771 436, [jzube@acenet.com.au](mailto:jzube@acenet.com.au), as Peace Plans No. 40.  
Translation by John Zube, using the part translation of the law draft itself in Edgar Milhaud's: "Ending the Unemployment and Trade Crisis", London, Williams & Norgate Ltd., 1935.

# Four Law Drafts

## INTRODUCTION

The following is a translation of the Four Law Drafts and their justification written by Dr. Walter Zander.

Further detailed comments can be found in:

Prof. Dr. H. Rittershausen: "[Unemployment as a Problem of Turnover Credits and the Supply of Means of Payment](#)", pp. 137-187 in : Edgar Milhaud's: "Ending the Unemployment and Trade Crisis", London, Williams & Norgate Ltd., 1935, which will also be reproduced in this series, and Prof. Dr. H. Rittershausen's work: "[Das Andere System](#)" (The Other System), Georg Stilke, Berlin, 1932, which will be reproduced by LMP when a copy can be obtained, and in a pamphlet by Dr. Best which is here offered for the first time in English translation.

The wider context of monetary freedom, which these proposals would realize only in parts, is described and justified especially in the three works of Ulrich von Beckerath reproduced in Peace Plans No.s 9-11.

These Four Law Drafts came close to ending the economic crisis in Germany in 1932.

Thereby they could have prevented the rise of the Nazis to power and thereby World War II. If they had been realized then the threats of totalitarianism and ABC war would not loom over us, either.

Far from being outdated, these proposals, or very similar ones, could even now help any country out of an economic crisis or prevent it. More particularly, they could end or prevent unemployment and inflation, even stagflation. To realize this as a fact takes considerable study of the principles and practices of monetary freedom. Unfortunately, so far only too few were willing to pay this price.

How could these proposals have prevented the Nazi Regime and WW II? Chancellor Bruening was then in power in Germany. One of his closest advisors was Dr. Munzer who had already put these drafts on B.'s desk to be passed as emergency laws. B. was getting desperate. His previous emergency laws had throttled the economy still further. He was in political trouble and was ready to try anything new. These laws would have released the major recuperative energies in the economy. (See the comments.) He is likely to have signed them, soon, on the strength of the recommendations he had received. He especially trusted Dr. Munzer's judgment. But right then another acute government crisis occurred and 2 or 3 days later, before he could enact these laws, his government had fallen. If only he had lasted a few days longer in power ...

I appeal to you to have enough patience to study these law proposals and comments. We may be, again, at a similar political position where things can go either way. We are certainly in another economic crisis situation and totalitarianism and WW III may just be around the corner. Perhaps, again, some days of rational action could just make all the difference between

crisis and recovery,  
dictatorship and freedom,  
war and peace -

and your own voice in favor of these ideas might just be the decisive one. The latter may be unlikely but is not impossible. You certainly bet too much on it being untrue.

For the benefit of libertarian purists it may be necessary to point out here that these legislative proposals are essentially not proposals for additional monetary legislation but rather proposals to repeal or bypass the existing monetary legislation which has established a condition of monetary despotism. The proposals would open the field for honest and efficient monetary dealings, for laissez faire in the monetary sphere, for monetary freedom or free banking, instead.

The same line of thought has recently been pursued by F.A. Hayek in:

"Choice in Currency", IEA Occasional Paper 48 and in "Denationalization of Money", IEA

Hobart Paper Special No. 70.

The following is an undated comment to the proposals written by Ulrich von Beckerath probably between 1952 and 1959:

"I would like to make the following comment to the Four Law Drafts:  
"Oberregierungsrat" Munzer, collaborator in the drafts, said to us repeatedly: Bruening is a man of very superior intelligence. He is also a 100% patriot and would risk his life for Germany without hesitation and not only that. But of monetary theory he does not understand much. 'Not much' does here mean that he understands **something** of it, e.g. that inflation or devaluation cannot possibly be the right thing in the middle of a crisis. With this he understands at least more on this than all bankers and professors taken together for these are continuously demanding a deterioration of money. What Bruening does not know is the following:

Legal Tender, i.e. forced value and forced circulation, together with the note-issue monopoly and the right of creditors (including the workers) to demand cash, are Damocles Swords hanging over every government and not - as assumed as self-evident by professors and 'practical men' - essential supports. To instruct Bruening on this subject is technically impossible. Bruening has simply no time to listen to lectures on this. He is suffocating in files. Thus we must confine ourselves to points which Bruening with his common sense will recognize as right. Our expressions must be of a kind that they can be understood without difficulties. Thus the clearing certificates of the clearing banks must not be called notes. The word "tax foundation" must not be used in the text of the law. Word and concept are forgotten; Bruening has, undoubtedly, never heard of it. But the subject can be described with the example of the 'Reichskassenscheine' (treasury certificates accepted in tax payments) which still exist. Thus a mind like Bruening will recognize them immediately as right. Of the right of creditors to payment in cash and its replacement by a claim to clearing we must not speak at all. These concepts became clear in our discussions. Outside of our circle nobody knows anything about them.

The Four Law Drafts were correspondingly worded. They are at least of a kind that their realization would have abolished the crisis within a few days. The elaboration of this legislation would have been easy once the crisis would be over. The authority of Bruening would have increased immeasurably and he could have realized any further reasonable reform even against the opposition of the bankers and academics. Moreover, with the crisis at an end, Bruening would have had time and would have become fully acquainted with the theory. By the way, Munzer's position was in the antechamber of Bruening. He was very well acquainted with him, one could even say befriended. When everyone called for devaluation, Bruening listened to Munzer and understood him completely. Thus the two, in the middle of the general disaster, at least saved the currency (the value standard).

The task after the end of the crisis would have been to prevent its recurrence. For this further laws would have been necessary. Today the situation is in so far quite different as the Four Law Drafts are no longer sufficient. Today we need a programs which would not only take the economic chains off the Germans but of all the nations in the East. Once this has happened then the Americans, the English and the French are likely to follow."

Beckerath probably wrote the last paragraph having in mind some of the ideas he expressed in his post war "Berlin Program" or considered for his planned revolutionary program for the countries behind the Iron Curtain.

Here is another relevant short note of his, dated 4.5.56:

"Draft No. II, par. 4: This clause I consider to be still necessary today. Only associated shops as issuers would not require such a clause, in my opinion, because at the first news of a discount the bearers of the goods warrants would come running to exchange their goods warrants for goods. Should the goods be missing or cash for redemption, then immediately, or within less than an hour, the shop management will be under arrest."

Another more general monetary comment, putting these Law Drafts in context and defining some fundamental terms, was put out as a separate leaflet of the Research Centre for Monetary and Financial Freedom but-not yet included in any of the Peace Plans booklets. Thus it may serve here as a further introduction to these ideas:



under acceptance obligation. When the railway issues money (as in Germany in 1923/4 for several 100 million marks) then it circulates not only among those who just then want to use the railway's services. The tax foundation imparts to paper money (as apparently Lorenz von Stein found out first) a par value (to gold or silver coin) for an amount equivalent at least to the tax revenue for at least 3 months, even without legal tender.

11.) The unrestricted right of people to refuse to accept any paper money offered (Compare par. 2 of Bismarck's Bank Act of 1875 and the numerous laws of the confederated German states during the 100 years before this law was passed.) makes every abuse of the right to issue, either by the bureaucracy or private persons, impossible.

12.) Inflation, according to the above, is a condition in monetary transactions where paper money is accepted without limits and at a prescribed value only because legal tender prevails: a coercion which makes it legally impossible to account for depreciation by discount or refusal.

13.) Deflation, according to the above, is a condition in monetary transactions in which there is a shortage in typified and standardized exchange media ( so that workers have to be dismissed because banks cannot or will not advance the means of payment for their wages ) and at the same time, nevertheless, typified and standardized exchange media (e.g. typified clearing cheques and goods warrants etc. 7 cannot be issued because a certain authority, e.g. a central bank, has the monopoly for note issues.

14.) Legal tender is the legal prescription for every recipient of monetary payments to accept paper money or inferior coins at a fixed value. This forced exchange rate for general means of circulation, prescribed for every payee, practically for every citizen, must not be mixed up, as happened in Berlin in the discussion of West & East marks, with a fixed or controlled exchange rate for foreign exchange. The word "Zwangskurs" (legal tender) is far older than 100 years and was always used in the way here described, in royal Prussian edicts, in imperial Austrian regulations and even by Marx. Another use of it proves only ignorance of the terminology of economics. Bth. 25/1/52.

\$

SOME NOTES BY JOHN ZUBE, ADDING OR COMMENTING TO THE ABOVE SUMMARY:

15.) FALLEN prices must not be mixed up with FALLING prices. The former -tend to encourage buying and reduce hoarding. They usually originate at the goods side and lead to corresponding additional turnover, to new orders and employment. The latter tend to deter buying and lead to deflationary hoarding, sales difficulties, bankruptcies & unemployment. Moreover, the former tend to fall step by step according to developments on the goods side (technological improvements). The latter tend to occur more generally and evenly because they are due to a deflationary money shortage. This difference may be statistically indistinguishable but it is of great economic importance. Because of this distinction price levels cannot rapidly enough adapt to a deflationary reduction in the money supply - contrary to the expectations and predictions of most Austrian economists.

16.) A market subject to monetary despotism isn't free. To prevent and end both inflation and deflation, capital destruction and unemployment, monetary freedom has to be introduced.

17.) A gold standard as an exclusive currency is very different from a gold standard as a permitted and preferred but competing currency. It is as differed in its effects as a creditor's legal claim to payment in gold coins, even when a debtor has none and cannot obtain any, is from the right of debtors to pay them in gold only whenever they possess it (or obliged themselves contractually to supply it) and otherwise and normally to pay only in gold values, in any acceptable currency, by gold accounting or gold clearing. For the latter there need not be a single coin of gold in a country, although this would be preferable. The former amounts often to torturing a deaf and dumb person in order to extract a confession from him. The latter payment method is available to every productive person under monetary freedom.

18.) As money cover en serve anything that is found acceptable by well informed acceptors of a paper money in a free market.

19.) The issue principle can be applied not only in the monetary sphere but also in the capital market. There it can finance e.g. a libertarian take-over of a bureaucratic democracy, a libertarian revolution in a dictatorship, education, innovation and research, desert irrigation, even space exploration. Its monetary application is essential for the conduct of a rightful defensive war.

20.) Redemption in rare metals is not required to preserve the value of a paper money. It can be replaced by acceptability under the control of a free market rate. This would leave the discount possibility as a necessary feature but would generally lead to a par rate of the paper money on a free gold market. It would not be a gold convertibility but a gold clearing standard. It would transfer redemption from the issuer to the free gold market - for whosoever would need it or would be doubtful or suspicious. This possibility is not sufficiently discussed by the advocates of a 100% gold dollar.

21.) Inflationary government spending is not "spending", no more so than private forgery is.

22.) Nobody can create money or credit out of nothing no more so than creating energy out of nothing. What appears or is considered as 'creation' is either a forced value, a transformation system temporarily substituting suitable for unsuitable notes, fraud, or clearing.

23.) Note to 7: This possibility of suffering a discount is a necessary feature of a free monetary system. It would draw depreciated notes quickly out of circulation. They would be paid back to the issuer who has still to accept them at par. This discount would thus be welcomed by his debtors. The more the notes are discounted the more rapidly they would return. With the returned notes the circulation and the discount would be reduced. It is obvious that while the discount continues new issues will be hard to impossible. People will simply refuse to accept them - unless they owe the issuer something.

24.) Without legal tender and under free monetary competition, each exchange medium being subject to free market rating and the right to refuse them altogether, the good types of media and standards would soon drive out the bad ones. These German economists recognized this truth long before those of the Austrian School.

INFLATION-PROOF MONEY IS NOT IMPOSSIBLE -IT IS MERELY OUTLAWED!  
LET GOOD MONEY DRIVE OUT THE BAD: REPEAL LEGAL TENDER!

My human rights draft, resulting from many discussions with Ulrich von Beckerath in the fifties, using many of his notes and published first in Peace Plans No. 4 in 1964, contains the following monetary rights which may also serve as an explanatory introduction to the Four Law Drafts:

31.) CLEARING

Every rational being has the right to settle its debts with its assets by clearing and to select the best technical form for this purpose.

It has the right to try to pay off its debts with any kind of exchange media. It may not be forced to discharge them with one particular means of payment only. Nobody may be declared bankrupt before every possibility for clearing is exhausted.

32.) ISSUE OF MONEY

Every rational being has the right to issue and offer as means of payment private money tokens, purchasing and clearing certificates, banknotes, etc., typified in pieces like money, provided they are not legal tender but guarantee a certain value instead, e.g. the value of a certain weight of gold on a free market. In other words, every rational being has the right to issue private exchange media which entitle the bearer to exchange them at their stated value into goods and services of the issuer. Every rational being is, furthermore, entitled to issue freely transferable short, medium and long-term promissory notes, bonds and other securities, provided that no detail of and relating to their issue is kept secret.

Comment: This right would introduce free competition in the field of the supply of exchange media and would thereby abolish currency and credit shortages. It would establish for the first time a real free market and would put an end to unemployment, sales, difficulties,; all depressions. Even people unemployed because of technological advances would then easily get a loan for retraining and another job. Once a perfect clearing system were established, even individuals could get their paper accepted. Until then associations of shopkeepers, large public utility companies and note issuing banks, discounting bills of exchange, would have the least difficulties in

achieving at least a local circulation for their currencies.

33.) REJECTION OF DETERIORATED MONEY

Every human being has the right to refuse acceptance of exchange media, either completely or at their nominal value, unless it has issued them itself or has obliged itself to accept them.

This right finds its limit in the obligation to accept the local currency at its nominal value as long as it is not deteriorated and nothing to the contrary has been agreed upon.

Comment: This right requires the repeal of all legal tender laws and privileges and monopolies for the issue of means of payment. It would make inflations impossible.

34. STANDARD OF VALUE

Every rational being has the right to invest its capital safely, that is to use in all business contracts, including e.g. employment, rent, building, and insurance contracts, declarations and offers, a standard of value or a value protecting clause of its choice, e.g. a gold clause.

It has, furthermore, the right to base its own private money tokens on an optional standard of value.

Comment: A freely agreed upon standard for measuring values may not be interfered with by any law. Lastly, the most reliable standard would be almost universally and voluntarily accepted. Most likely it will be the value of a certain weight of gold on a completely free market.

This moralistic and tolerant monetary approach was further developed in my special pamphlet: "The case for economic and political TOLERANCE as the **only** sound .policy" which is also largely based on some notes by Ulrich von Beckerath and will be microfiched soon.

Original Introduction

Die nachstehenden Gesetzentwürfe sind das Ergebnis einer Gemeinschaftsarbeit. Sie bilden ein einheitliches Ganzes.

Die Begründung ist im Auftrage aller übrigen Verfasser von Dr. Walter Zander gefertigt.

Berlin, den 12. Mai 1932.

Dr. Gustav Ramin    Heinrich Rittershausen    \*\*\*    Ulrich von Beckerath    Hans Meis  
Walter Unger    Dr. Walter Zander

\*\*\* = Dr. Munzer

# I. DRAFT OF A LAW ON STABLE VALUE RECKONING AND RELIEVING THE GERMAN CENTRAL BANK

## Chapter I

### Par. 1:

In all payment, and credit transactions, regardless of the market rate of the means of exchange, calculations are to be made in stable value units.

### Par. 2:

- (1) Gold is the standard of value.
- (2) The reckoning unit is the mark which is divided into 100 Pfennig.
- (3) The value of the mark is equal to 1/2790 kilograms of fine gold.
- (4) By agreement other value standards than gold may be determined.

### Par. 3:

Gold coins of the Reich are the only means of payment that have to be accepted in all transactions without limits and at their face value.

(Note that in Prof. Rittershausen's essay : "Unemployment as a Problem of Turnover Credits and the Supply of Means of Payment" in Milhaud's "Ending the Unemployment and Trade Crisis", which appeared in 1935, this paragraph has been differently worded and expanded into:

Par. 3: Reich gold coins shall be the sole means of settlement that must be accepted in economic dealings to an unlimited extent and at their face value. An obligation to remit gold or coins in settlement of liabilities valued in marks, does not exist.

Par. 3a: If the debtor offers such, the creditor shall clear at their face value the matured bonds and goods warrants made out in marks, which he has accepted. The creditor shall facilitate the clearing possibilities by placing at his debtor's disposal his goods and service? ('shop foundation') and by furnishing the address of his bank. Clearing is the only means of settlement which the creditor must accept to the extent of the debt involved and at its face value. The provisions of the Civil Code concerning clearing remain unaffected. The clearing restrictions in the case of public debtors are hereby repealed.

This is G. Spiller's translation. The original German issue, which appeared in 1934, in "Zahlungsverkehr, Einkaufsscheine und Arbeitsbeschaffung", Annalen der Gemeinwirtschaft, 10. Jahrgang, Heft 1, Januar/Juli 1934, has a footnote stating that the second sentence of par. 3 and par. 3a were added by Prof. Rittershausen. I like my own translation of par. 3a better, at least it is more accurate:

Par. 3a: The creditor, whenever the debtor offers them, has to accept in settlement and at their nominal value his own due bonds and goods warrants which are expressed in marks, and also those of his creditors. The creditor has to facilitate the possibility of clearing by making his goods and services available ('shop foundation') as is practice in his profession, and by naming his bank.

Clearing is the only means of settlement which must be accepted by the creditor in trading, at nominal value and up to the amount of his debt.

The clauses of the Civil Code on clearing do not apply. The restrictions on clearing by debtors of public bodies are repealed.

Read Prof. Rittershausen's whole essay for the reasons for this addition which are not self-evident. End of this note. The following continues the original text.

\*\*\*\*\*

### Par. 4:

- (1) There is no obligation to accept banknotes in payments which are legally to be paid in money.
- (2) Par. 3, sect. 2 of the Bank Act of 30/8/1924 is hereby repealed.
- (3) In Par. 5, section 1, sentence 1a of the Coinage Act of 30/8/1924, the following

words shall be deleted : "and the notes issued by the Reichsbank and payable in Reichsmark".

Par. 5:

(1)The officially approved German Stock Exchanges shall daily determine and publish the rate, in Reichsmarks, for the Reich banknotes.

(2)Until a free gold market has been established in Germany, the rate shall be fixed by conversion of the official London gold rate on the basis of the average rate of the Reich banknotes for settlement in London.

Par. 6:

In cases of doubt rate variations of the customary means of payment of 1% of the nominal value, upwards or downwards, shall be ignored.

Par. 7:

Should the determination or publication of the market rate for a means of payment not take place or should only a restricted allotment of gold and foreign exchange occur for a period of more than 6 Exchange days, then the creditor is entitled to refuse to accept what is offered as long as the determination or publication of the rate remain suspended or the restricted allotment continues.

Par. 8:

Should a settlement be effected by a remittance of Reich banknotes then their acceptance terminates the debt obligation.

Par. 9:

The debt relationships existing when this Act comes into force are considered as stable value relationships.

## Chapter II

Par. 10:

(1) From the day this Act comes into force, the Reichsbank has to issue new banknotes. These banknotes are to have continuous numbering. The day of their issue is to be noted on them. They must be clearly distinguishable from the Reich banknotes issued so far.

(2) All Reichsbanknotes circulating on the day this Act comes into force, are to be withdrawn and destroyed by December 31, 1936. Cheque accounts may no longer be established with them.

Par. 11:

(1) For the new issue of Reichsbanknotes the rules of the Bank Act apply but with the following additional provision: New notes may only be issued when, during the months preceding the issue, one quarter of all credits have been repaid which were outstanding at the beginning of this month and granted after this Act came into force. (Reflux)

(2) Prolongations of an existing debt relationship, no matter in what form, do not count as amortization.

Par.12:

All Reichs banknotes circulating when this Act comes into force, will be accepted up to December 31, 1932, by all cashiers of the Reich, the states and municipalities (municipal associations), public religious bodies, and social insurance companies in payment of all dues and contributions at their full nominal value, also in advance payment of taxes.

Par.13:

The Reichsbank has to accept the notes issued by it at any time and at their full nominal value in payment for all its claims.

Par.14:

The Reichsbank has to destroy all Reichsbanknotes which flow back to it.

Par.15:

(1) The weekly releases of the Reichsbank have to contain the following, apart from the details prescribed by par. 36 of the Bank Act of 30.8.1924:

1. On the debit side:

The amount of circulating notes, separated according to whether they were

issued before or after this Act came into force.

2. On the credit side:

The inventory of "other bills of exchange and cheques", separated according to whether they were purchased or taken as security for credits before or after this Act came into force. Prolongations of debt relationships, no matter in what form, are to be shown by their amount, date of origin and grouped according to size (up to 10.000 marks from 10.000 to 50.000 marks, from 50.000 to 200.000 marks, from 200.000 to 1 million marks, from 1 million to 10 million marks and above 10 million marks). In this several obligations of the same debtor count as one.

(2) These weekly publications must further state how many banknotes were destroyed in accordance with par. 14 and how many banknotes were newly issued.

Par.16:

The audit office of the German Reich supervises the whole management of the Reichsbank and submits quarterly reports to the Reich's government. These reports are also to be published in the "Deutschen Reichsanzeiger" and the "Preussischen Staatsanzeiger".

### **Chapter III**

Par. 17:

The Reichsminister of Finance can pass the regulations and the general administrative rules for the realization of this Act. He can also give supplementary general instructions when he considers them necessary for the achievement of the purpose of this Act.

Par. 18:

This Act comes into force on .....

## **II. DRAFT OF A LAW ON REICH TREASURY NOTES**

### Par. 1:

The Government of the Reich is hereby empowered to issue Reich treasury notes in denominations of 5,10,20,50 and 100 marks.

### Par. 2:

- (1) The Reich treasury notes shall be produced by the Debts Administration of the Reich.
- (2) The Debts Administration of the Reich has to note on the Reich treasury notes the date of their handing over to the Chief Pay Office of the Reich.
- (3) It shall replace notes that have been damaged or become useless and charge these to the Reich when the submitted piece is part of a genuine Reich treasury note and consists of more than half of such a note. In other cases, the Reich Debts Administration shall replace notes at its dutiful discretion.
- (4) The Reich Chief Pay Office shall cancel the Reich treasury notes flowing back to it and return them to the Reich Debts Administration for destruction.

### Par. 3:

- (1) The officially approved German Stock Exchanges shall daily determine and publish a rate in Reich marks for the Reich treasury notes.
- (2) Until a free gold market has been established in Germany, the rate shall be fixed by conversion of the London gold rate on the basis of the average rate of Reich treasury notes for settlement in London.

### Par. 4:

If for more than two days the average rate quoted stands below 95% of the nominal value, then new Reich treasury notes may not be produced by the Reich Debts Administration or circulated by the Reich Chief Pay Office, until the price quoted reaches at least 95%.

### Par. 5:

(1) The Reich Gazette and the State Gazette shall publish daily statements on the Reich treasury notes. These statements shall report, separate by denominations:

1. the total amount of Reich treasury notes,
2. the stock of Reich treasury notes at the Reich Chief Pay Office,
3. the resulting number of Reich treasury notes circulating,
4. the incomings and outgoings of Reich treasury notes at the Reich Debts Administration and the Reich Chief Pay Office.

(2) The Audit Office of the German Reich shall control the accuracy of the statements and vouch for them in the public announcements.

### Par. 6:

There is no legal obligation to accept Reich treasury notes in payments which are to be made in currency, neither at their face value nor at any other value.

### Par. 7:

(1) Compulsory acceptance for these notes applies only to the pay offices of

1. the Reich,
2. the German states,
3. the municipalities and municipal federations,
4. the social insurance authorities,
5. the German Reich Post Office,
6. the German Reich Railway Company.

(2) The compulsory acceptance does not apply to deposits in postal cheques and savings accounts and in general bank transactions, especially not to payments made to pay offices mentioned in section 1 which only serve the passing on or the bank-like administration of the amounts paid in.

Par. 8:

The pay offices named in par. 7 must accept the Reich treasury notes at their face value at all times.

Par. 9:

(1) If the average rate quoted at a Stock Exchange stands below 95% of the nominal value for more than 6 days then the Reich Minister of Finance shall decree the payment of certain or of all taxes in parts or wholly in Reich treasury notes.

(2) When any payee fails to comply with these obligations then he must pay a surcharge of 1%.

Par. 10:

If a debt payment is offered in Reich treasury notes then the debt relationship ends with their acceptance.

Par. 11:

Par. 149 of the Penal Code of the German Reich applies to Reich treasury notes.

Par. 12:

The Reich Minister of Finance shall adopt measures to facilitate - particularly through establishing exchange centers - the exchange of Reich treasury notes paid in at banks, between the Reich Chief Pay Office, the Reichsbank, and the banks, savings banks, and other credit institutions.

Par. 13:

The Reich Minister of Finance can pass the regulations and general administrative rules for the realization of this Act. He can also give supplementary general instructions when he considers them necessary for the achievement of the purpose of this Act.

Par. 14:

This Act comes into force on .....

### III. DRAFT OF A LAW TO FACILITATE TAX PAYMENTS WITH DEBT CERTIFICATES AND LEDGER CLAIMS

Par. 1:

- (1) Taxes of the Reich, the German States, municipalities and municipal associations as well as custom duties can be paid by the debtor by means of the surrender of debt certificates, interest coupons of debt certificates, treasury certificates, treasury bills (debt titles) of the creditor of these dues, provided they are due or due within 30 days.
- (2) For the same purpose the tax debtor may assign ledger claims he has against the tax creditor, provided they are due or due within 30 days.

Par. 2:

- (1) The debtor may make payment towards taxes due in the future. Such payments establish tax assets.
- (2) Tax assets may be established at all pay offices to which dues have to be paid.
- (3) Tax assets are established:
  1. by handing in due or not yet due debt titles which oblige the tax creditor,
  2. by assigning due or not yet due ledger claims which the tax debtor has against the tax creditor.

Par. 3:

The debt titles and ledger claims are to be credited at their nominal value or at their reimbursement amount if this is higher than the nominal value.

Par. 4:

- (1) Crediting takes place on the 30<sup>th</sup> day before the due date. For lottery loans the crediting day is determined by the Reich government according to the laws of probability.
- (2) Clearing comes into effect upon assignment by the debtor or when the legally determined tax claim falls due.

Par. 5:

- (1) Tax assets pay interest from the date the debt titles and ledger claims fall due. The interest is credited to the tax assets.
- (2) The conditions of interest payment are determined by the Reich government.

Par. 6:

The tax debtors are assured of the gold value of their tax assets. The gold value is determined in accordance with par. 2 of the regulation to carry into effect the Act on stable value mortgages of 29.6.1923.

Par. 7:

- (1) Tax assets can be inherited or transferred, wholly or in parts.
- (2) Tax assets serve only for clearing purposes and cannot be reclaimed.

Par. 8:

- (1) Tax assets are freed of taxes of the Reich, the German States, municipalities and municipal associations. This does also apply in favor of those who acquire tax assets.
- (2) When tax assets are transferred to an heir or other beneficiary neither death nor gift duties become due.

Par. 9:

- (1) Against death duties even not yet due tax assets of the deceased or
- (2) of the tax debtor against the Reich, may be cleared. This compensation takes place at the nominal value or at the repayment amount (par. 3) to which are to be added the interest accumulating up to the due date. From the total amount thus

determined, an intermediate interest is to be deducted. This intermediate interest must not exceed the lowest interest rate applying to the loans of the Reich. Details are determined by the Reich government.

- (3) The tax debtor can pay the death duty also by the surrender of not yet due debt certificates of the Reich or by the assignment of not yet due ledger claims against the Reich. Clearing takes place in accordance with section 1, sentences 2-4.

Par. 10:

- (1) Taxes overdue, when this Act comes into force, by more than 3 months, can be paid by the debtor within 6 months after this law comes into force, by the surrender of due or not yet due debt titles or through the assignment of due or not yet due ledger claims at their nominal value. Par. 9, Section 1, sentences 2-4 apply correspondingly.
- (2) This does not interfere with the compulsory collection of due taxes.

Par. 11:

For tax assets those conditions on interest, due dates, nominal value and repayment amounts apply which were valid on the day of the surrender of the debt titles or the assignment of the ledger claims. A subsequent change of these conditions does not affect the tax assets.

Par. 12:

Cleared debt titles and ledger claims are to be taken into account for the planned amortization payments of the loan debtor.

Par. 13:

- (1) Debt titles are to be marked when they are surrendered.
- (2) After the clearing the debt titles are to be destroyed and the ledger account claims are to be cancelled.

Par. 14:

Not subject to the stock exchange turnover tax are:

1. At home or abroad contracted purchases of debt titles or ledger claims (par. 1) which are used in accordance with paragraphs 1, 2, 9 or 10 of this Act.
2. The use of these debt titles or ledger claims according to paragraphs 1, 2, 9 or 10 of this Act.

Par. 15:

The Reich Minister of Finance can pass the regulations and general administrative rules for the realization of this Act. He can also give supplementary general instructions when he considers them necessary for the achievement of the purpose of this Act.

Par. 16:

This Act comes into force on .....

## IV. DRAFT OF A LAW ON CLEARING BANKS

### Par. 1:

- (1) Clearing banks are enterprises whose object is to clear claims and debts.
- (2) They may only acquire or grant credit on good commercial bills and good other claims arising out of sales of goods and services. The due date of the bills and claims must not exceed 4 months. Their obligors must be known as solvent.
- (3) They may not undertake any other classes of banking operations.

### Par. 2:

Clearing banks must be entered in the Company or Cooperative Register.

### Par. 3:

- (1) Clearing banks are entitled to accept clearing cheques drawn on them, by means of a note on these cheques.
- (2) By this acceptance the clearing banks bind themselves to credit the bearer of a clearing cheque on a clearing account. They are not obliged to pay cash.
- (3) The clearing bank can free itself from the obligation to clear by satisfying the claims of the creditor with the surrender of Reich banknotes, Reich treasury notes or coins.

### Par. 4:

- (1) Clearing cheques, within the meaning of this Act, shall be payable to the bearer and shall carry on the front the notification: "For clearing only". They may only be made out in denominations of 1, 2, 5, 10, 20 and 50 marks. Moreover, they must be in accordance with the requirements of par. 1 of the Cheque Act of 11.3.1908.
- (2) Clearing cheques must be printed, apart from the signatures of the bank drawn, the drawer and the date of issue. The issue date may be printed. The signatures may be mechanically duplicated.

### Par. 5:

Clearing banks may only issue printed forms for clearing cheques which carry already the bank's notification of acceptance.

### Par. 6:

The clearing banks are obliged to accept at full nominal value and at any time all clearing cheques which already carry their acceptance note.

### Par. 7:

- (1) Clearing banks may only issue printed forms for clearing cheques and acquire, or lend on, bills or other claims (par. 1, sec. 2), if in the course of the preceding calendar month one fifth of the bills and other claims, outstanding at the beginning of that month, have been repaid (reflux).
- (2) Prolongations of an existing indebtedness, in whatever form, do not count as repayments.

### Par. 8:

- (1) To the extent that the credits granted by a clearing bank are not repaid by the handing over of clearing cheques of this bank, but by other means, more particularly by transfers or delivery of Reich banknotes, Reich treasury notes, or coins, these means of payment are to be used, or to be kept ready, for the purchase of clearing cheques of that bank.
- (2) A clearing bank can demand a premium from its debtors to the extent that they do not repay their debt by the surrender of clearing cheques of this bank. This surcharge may not exceed 1% of the amount repaid in this way.

### Par. 10:

There is no time limit for presenting a clearing cheque to the drawee clearing bank.

### Par. 11:

- (1) The claim against the clearing bank arising out of its acceptance and against the drawer of the clearing cheque falls under the statute of limitations after 3

years. This time limit begins at the end of the year in which the clearing cheque was drawn.

- (2) The clearing banks have to point, out the running out of the time limit up to the first of November of every year - by announcements in the papers used for the publications of the clearing banks.

Par. 12:

- (1) The clearing banks shall be attached to an audit centre determined by the Reich Minister for Economic Affairs.
- (2) The audit centre is entitled to examine the business papers, books and other documents of the clearing banks.

Par. 13:

By the 10th of each month, the clearing banks must submit to the audit centre statements on the development of the business during the preceding month. This report must set out:

1. the aggregate amount of the bills and claims acquired and those lent on, each separately,
2. the total amount of the issued and not yet returned printed clearing cheque forms,
3. the amount involved in the bills and other claims paid off during the month reported on,
4. the aggregate amount of the printed forms issued as clearing cheques during the month under review,
5. the amount of the means of payment held ready pursuant to par. 8, sec. 1,
6. the prolongations of existing debt obligations.

Par. 14:

Par. 795 of the Civil Code does not apply to clearing cheques in the meaning of this Act.

Par. 15:

The Reich Minister for Economic Affairs can pass the regulations and general administrative rules for the realization of this Act. He may also give supplementary general instructions when he considers them necessary for the achievement of the purpose of this Act.

Par. 16:

This Act comes into force on .....

# JUSTIFICATION OF THE FOUR LAW DRAFTS

By Dr. Walter Zander

Dr. Walter Zander is the author of two other monetary freedom essays:  
"Railway Money and Unemployment" and  
"A Way Out of the Monetary Chaos",  
Both reproduced in Peace Plans No. 9 and available from LMP on microfiche as well as  
online at: <http://www.reinventingmoney.com/zander.php>

## INTRODUCTION

### THE PRESENT SITUATION. ALL PREVIOUS MEASURES WERE MERELY ADAPTIVE

The present situation is characterized by a vicious circle. The further the shrinkage of the economy proceeds, the lower is the income of the States. The more the tax burdens are increased, the more shrinks the capacity of the economy. Moreover, the requirements of the treasury rise with the number of the unemployed. Already today some of the largest German municipalities have difficulties in finding the means required to pay their public servants and social services. The day cannot be far away when they are altogether unable to raise these funds. When this day occurs, civil unrest will not be far away, either and the emergency will enforce the issue of state paper money. Thus it is to be feared that the development will inevitably lead to inflation.

All previous measures to fight the economic crisis were without success. In essence they amounted only to an adaptation to a continuously progressing deflation. This does not suffice. Instead, the dynamics of the situation must be actively fought and a full strength effort must be made to break the vicious circle.

BUT CAN WE DO ANYTHING? Isn't the present situation merely the necessary consequence of the unhappy ending of the war? Isn't the steadily increasing unemployment and the worsening shrinkage of the economy, in short, the more and more spreading dissolution of the whole German economy, lastly due to the Reparations and the other war debts? Isn't the accumulation of gold in a few centers of the world the cause of this downfall? Briefly, haven't we got a WORLD CRISIS which could only be effectively fought through uniform measures of all countries involved and not through the single-handed efforts of any country?

No informed person will deny the connections and interrelationships of international life. However, even the strongest ties with other nations do not release us from our obligation to do OURSELVES everything that can lead to an improvement in the situation. Once before, the belief that external help would be required has had the most disastrous consequences for the German people. During the inflation it was also assumed that its cause was in the international situation. The "Hole in the West", the uncertainty on the total of the reparations, were held responsible for the inflation. One considered it impossible to establish a stable currency before an international conference had clarified the general situation. Then as well as now one believed to have to wait for external help. This hope was deceptive. When the emergency had risen to extreme heights, when unrest and uprisings had already broken out in various parts of Germany, then, during the last hour, we succeeded in stopping the progressive depreciation of the mark and carrying out its stabilization. All this happened, and nobody in the world denies this, exclusively due to the own efforts of the German people. No international conference helped. The invitations to the councils of experts were sent to the participating governments only after the stabilization had already been achieved.

There is no doubt that the present situation is not the same as it was then but the similarity is greater than most people seem to assume. In any case, the experiences of

this period supply an impressive example for the present.

Furthermore, we cannot wait any longer. The complete breakdown does already threatens The settlement of international relations is achieved only slowly. THUS WE HAVE NO OTHER CHOICE, WE CANNOT STARVE TO DEATH, WE MUST ACT.

## CHAPTER I

### AGAINST INFLATION

Whilst the exigency is great and the task is urgent, it must be clearly realized "that under no circumstances must any means be used which brings the possibility of inflation. On this there is full agreement in the whole nation. The horrors of inflation are still in the memory of all. Moreover, it never happened that a sick economy was cured by inflation. Every means leading to inflation must, therefore, be excluded.

But the task is not only to avoid any means which might bring the danger of inflation with it. THE EXISTING CONDITION CARRIES ALREADY AN INHERENT DANGER OF INFLATION. It has already been stated that the gap between the money requirements of the government and the possibilities of raising its revenues is steadily increasing. Thus one has to seriously reckon with the danger that this tension will, when violence occurs, lead to inflationary measures. Thus the task is not only to avoid inflation in FUTURE measures but, much more so, to abolish the DANGER OF INFLATION THREATENING NOW.

THE GREAT TRADITION of the German, especially the Prussian pre-war financial system shows the way out.

If one compares the financial constitution of the German States in the 19th century with the present one, an essential difference shows up. UP TO THE YEAR 1909 THERE WAS IN GERMANY NO COMPULSORY ACCEPTANCE (LEGAL TENDER) for banknotes and the treasury notes issued by the State. Only in this year was enforced circulation introduced. THUS UP TO THE YEAR 1909 THERE WAS NO POSSIBILITY TO ENGAGE IN AN INFLATION. A few years later inflation was a reality. This fact must be recognized as clearly as possible. For this purpose the relevant legal clauses are confronted below:

Par. 2 of the Bank Act of 14.3.1875 (RGB1.S. 177) formed on the model of prior state regulations, stated:

"AN OBLIGATION TO ACCEPT BANKNOTES in payments which legally are to be made in money DOES NOT EXIST and cannot be established through state laws, not even for State Pay Offices."

Contrary to this, article 3 of the Act of 1.6.1909 concerning changes in the Bank Act (RGB1. S.515) runs:

"The notes of the Reichsbank are legal tender".

This means:

By a change of the Bank Act compulsory acceptance at face value (legal tender) was introduced for Reichsbank notes and from then on everybody was forced to accept Reichsbank notes in payment at their nominal value regardless of how much their real value had sunk under their nominal value. The Act of 1.6.1909 was therefore the legal precondition for the inflation and THE FEW WORDS OF ARTICLE 3 HAVE MADE POSSIBLE THE WHOLE INFLATION LOSSES OF THE GERMAN ECONOMY.

It is highly remarkable how already the old Prussian "Regulation on the Acceptance of Treasury Notes in Payment until Redemption Is Restored" of OCTOBER 23rd., 1807 judged such a measure. In this it says literally:

"We, Frederic William, by God's grace King of Prussia, Margrave of Brandenburg etc., hereby declare and proclaim:

When on the first of June of this year we left the acceptance of the treasury notes to the free will of payees, we could not help noticing that thereby this paper money would lose still more in exchange against cash silver currency than it had already lost due to the restriction of its redemption in silver. But we saw and see this as a minor evil COMPARED WITH THE INCENTIVE TO DISHONESTY ARISING OUT OF THE POSSIBILITY TO PUSH PAYMENT ON A CREDITOR IN

PAPER MONEY WITH AN ENFORCED PAR VALUE, a paper which loses against silver seeing its redemption has ceased."

This regulation was signed by the Baron von Stein.

Fundamentally, one has to start from the fact that an inflation without legal tender is never possible. On this there was always full agreement in the science of finance. Only in modern times has this fundamental principle, apparently, become forgotten. Which are the presently applicable legal clauses on this decisive question? The Bank Act of 30/8/1924 (RGBl. II, S. 235), passed within the framework of the laws of the Dawes Plan, agrees almost word for word with the law of 1/6/1909: Its par. 3, section 7 runs:

"The notes of the Reichsbank are, apart from Reich gold coins, the only unlimited legal means of payment in Germany."

In the same way it is expressed in par. 5 of the Coinage Act of 30/8/1924 (RGBl. II, S. 254):

"Exclusive legal means of payment are from now on:

- a) the gold coins listed in paragraphs 2-4 and
- b) WITHOUT LIMITS, THE NOTES ISSUED BY THE REICHSBANK AND EXPRESSED IN REICH MARKS."

The present ruling is thus exactly copied from that of the year 1909 which made the inflation possible.

Thus, fundamentally, we have to return in this question to the Bank Act of 14/3/1875 which was based on experience covering more than 100 years. Correspondingly, the present Draft of a Law on Stable Value Reckoning and Relieving the Reichsbank restores in chapter I, par. 4, the old version of the Bank Act of 14/3/1875, par. 2. Thus the enforced circulation (legal tender) for Reichsbank notes shall in future be repealed and nobody shall any longer be forced to accept a Reichsbank note at another than its true value.

The provisions of the current Bank Act - par. 3, section 2 - and of the Coinage Act - par. 5 - which oppose the old Bank Act are therefore to be repealed.

But this is not yet enough. Moreover, to avoid inflation and restore just relationships, the principle of stable value reckoning is to be established quite generally. A single means of payment, when badly administered, may lose in value. But the price of goods, the value of wages and services must no longer be interfered with by such events in the future. NOBODY, IN THE FUTURE, SHOULD BE DEFRAUDED BY A FLUCTUATION IN THE VALUE OF MEANS OF PAYMENT.

For this it is obvious that a truly stable value reckoning is quite impossible as long as legal tender exists. For by precisely this compulsion the development of that free market rate is prevented which alone makes it possible to determine values. This does not only apply in case of a depreciation of means of payment (inflation) but in the same way in case the value of money rises (deflation). The injustice involved is in both cases the same. In an inflation it harms the creditors, in a deflation the debtors. Consequently, par. 1 of the first Draft establishes the GENERAL PRINCIPLE THAT IN ALL TRANSACTIONS THERE MUST BE STABLE VALUE RECKONING.

WHICH STANDARD OF VALUE should be used? When towards the end of the inflation the value of marks was fluctuating and depreciating so wildly that it could no longer be used as a standard of value, the economy attempted to help itself and used, according to particular circumstances, the price of rye or wheat, of sugar, of coal, of gas and of other goods, as a basis for its reckoning. Compared with the continuously falling mark these prices were stable - but compared with gold even they fluctuated.

There exists a lively controversy at present on the question of the standard of value. DECISIVE for determining our choice must be ITS USEFULNESS. Thus that particular commodity should be used as a basis for reckoning which according to experience is subject to the LEAST FLUCTUATIONS. THIS IS, for our time, without a doubt, GOLD. Statistics and practical experience demonstrate that in relation to all other commodities the fluctuations in the price of gold were by far the least during the last 100 years and they point out, on the other hand, what considerable fluctuations took place, even in the last few years, e.g. in the prices of sugar and rye. It is self-evident that the price even of the most price sensitive commodity is still a better standard of value than a paper money with legal tender. After mature evaluation of all circumstances we find that for the time being and for the foreseeable future gold, among all commodities, is the most suitable one for standard of value

measurements.

Correspondingly, the Coinage Act has determined the value of the Reich mark according to the value of gold, in agreement with the legislation of most other countries. It will be wise to adhere to this in principle. (But it should be left to the discretion of the economy to make use, from case to case, of other standards of value than gold, e.g. rye, coal or sugar, in its accounting.) Thus in draft No. I the REICH MARK, in agreement with the former condition, has been defined AS 1/2790 kg OF FINE GOLD.

A free gold market in Germany would be desirable and this will have to be one of the fundamental aims. But until this is achieved, the reference to the London gold price, in agreement with current practice, would offer the greatest assurance for stable value reckoning.

It is self-evident that for the purpose of stable value reckoning gold coins need not actually circulate because in stable value reckoning the GOLD PRICE is merely used AS A MEASURING DEVICE.

With the repeal of legal tender (forced acceptance) the unfortunate DOUBLE DEFINITION would be simultaneously abolished which presently exists for the concept of the Reich mark. On the one hand, through the Coinage Act, the Reich mark is defined as a certain quantity of fine gold. On the other hand, it corresponds to the fraction of the value of a Reich mark note, e.g. to a twentieth of the value of a banknote of 20 marks. Both definitions are tied together merely by the institution of a forced (legal tender) currency. But there can be no doubt - and experience has shown us very definitely, that the value of banknotes and of gold can be very different from each other. Thus the legal definition of the Reich mark according to the Coinage Act shall be retained, that is, the value of the Reich mark is determined by gold. But the currently side by side existing paper currency will be repealed.

From this point of view there are no objections at all against the various GOLD AND OTHER VALUE PRESERVING CLAUSES repeatedly used in the economy. Such objections arise only under legal tender for banknotes. When ALL accounting of economic transactions is on a STABLE VALUE BASIS, then contracts with gold clauses are permitted on principle and at the same time superfluous as EVERY legal transaction is to take place on a stable value basis, anyhow.

In this context there are two remarkable historical precedents. Already FREDERIC THE GREAT stated in the regulations on the Royal Giro and Loan Bank of Berlin, on June 17th. 1765, in article 1:

"All accounts of this bank are to be kept in pounds, each containing 30 Groschen. The permanent content of this bank pound shall contain 25 % of the value of our Frederic gold coins, which are coined out at 21 carat and 9 grains and of which 35 pieces amount to one "Marck" (appr. ½ lb.). Thus 4 pounds banco will at all times amount to one Frederic gold coin."

All business transactions of the Royal Giro and Loan Bank at Berlin was to take place in pounds, i.e. in a reckoning unit whose value was determined by gold but not in actual coins, for coins in pound denominations did indeed not exist in Prussia! The second example was set by the IMPERIAL AUSTRIAN PATENT of 1.6.1816:

"From now on and never again shall there be a new issue of paper money with forced value and forced circulation or any increase in the currently circulating one."

SUMMING UP:

LEGAL TENDER FOR BANKNOTES IS TO BE REPEALED. THERE SHALL BE STABLE VALUE RECKONING AND AS RECKONING UNIT IS TO BE USED THE REICH MARK ACCORDING TO THE PROVISIONS OF THE COINAGE ACT.

This proposed settlement establishes clarity regarding the currency and makes in future any INFLATION ONCE AND FOR ALL IMPOSSIBLE in the most fundamental way. It corresponds to the great traditions of the German financial history and follows the legislation of Frederic the Great.

## CHAPTER II:

**THE FINANCING OF THE PUBLIC AND THE PRIVATE SECTOR OF THE ECONOMY MUST BE SEPARATED AGAIN.**

The second source of danger in the present situation is the mingling up of public and private financing.  
Let us first look at the old Bank Act of 14.3.1875. There, in par. 12, the task of the Reichsbank was described as:

"to regulate the money circulation in the whole area of the Reich, to facilitate clearing and to see to it that all available capital is utilized."

According to this the Reichsbank was responsible FOR FINANCING PUBLIC EXPENDITURES AS WELL AS THE PRIVATE ECONOMY. Correspondingly, par. 13 stated:

"The Reichsbank is authorized to engage in the following activities:

1. ...
2. to discount, purchase or sell bills of exchange DUE IN AT MOST 3 MONTHS, which oblige as a rule 3 but at least 2 persons known to be solvent, moreover, debt certificates of the Reich, a German State, or an internal municipal corporation, provided they are due at their nominal value IN 3 MONTHS AT THE LATEST."

According to this the Reichsbank was free to acquire whatever bills it thought to be suitable, without regard to their being commercial or financial bills, if only the due date is NO LONGER THAN 3 MONTHS AWAY.

In the same way the Reichsbank was authorized to acquire debt certificates of public authorities or to grant credit on them. Decisive was merely that the bills of exchange and the debt certificates were to be redeemed at their face value WITHIN 3 MONTHS. This FUNDAMENTAL IDEA cannot be overstressed. It establishes the principle of REFLUX which forms a more essential foundation of the banknote system than the gold cover.

In this way the Reichsbank fulfills its task to issue banknotes against claims. In other words, it subdivides bills or certificates submitted to it, due later but in at most 3 months, and turns them into immediately due small pieces designed for daily circulation. When after 3 months at the latest the purchased bill or the certificate advanced upon became due, then it had to be redeemed in the banknotes issued for this purpose. The Reichsbank thus received its banknotes back, returned the bills or certificates and thereby the particular business was concluded. In case the bill debtor paid in gold coins instead of in banknotes, then the Reichsbank could use these to buy up its banknotes. Due to its redemption obligation it was even forced to undertake this repurchase.

Thus the banknote circulation rested on the principle that within 3 months at most all issued notes had to flow back to the Reichsbank and this basic idea was good. When this fundamental requirement was fulfilled, no compulsory acceptance was required. The value of the notes consisted precisely in the fact that they had necessarily to return to the Reichsbank which was obliged to accept all notes issued by it at any time, at their nominal value, in all payments (par. 4, sect. 1 of the old Bank Act).

HOW IS THE SITUATION TODAY? The Bank Act of 30/6/1924 at first, in par. 1, literally repeats the number of tasks of the Reichsbank: Thus today as well as before, it is the duty of the Reichsbank to regulate the money circulation in the whole area of the Reich, to facilitate clearing and to see to the utilization of available capital. As for the rest, the provisions of the current Bank Act differ essentially from the previous ones. Thus the Reichsbank is NO LONGER permitted to acquire debt certificates of public authorities, be they of the Reich, the German States or municipalities. Also, the acceptability requirements for bills of exchange for discount by the Reichsbank have been raised. The Reichsbank is now to discount only GOOD COMMERCIAL BILLS. Thus par. 21 of the new Bank Act, as far as we are here concerned with it, runs as follows:

"The Bank is authorized to conduct the following business:

1. ...
2. To discount, purchase or sell bills of exchange running for at most 3 months, which oblige three solvent debtors, likewise cheques, signed by three persons known to be solvent. The requirement of the third signature can be ignored in cases where there is another security or where in some other way the value of the bill or cheque is guaranteed. But the total of the thus discounted bills may not exceed 33% of the total of the discounted bills. ALL BILLS DISCOUNTED BY THE BANK MUST BE GOOD

COMMERCIAL BILLS."

THE PRINCIPLE OF REFLUX has thus been preserved. Now, as well as before, the acquired bills should run for no longer than 3 months. INSOFAR there are no objections against this rule. On the contrary. This law leaves nothing to be desired from the viewpoint of the private economy - for the insistence that exclusively good commercial bills are to be discounted, corresponds to the principle of reflux and commercial bills, quite naturally, have this tendency still more so than financial bills. ON THE OTHER HAND, THE PRESENT RULING IS INSUFFICIENT FROM THE VIEWPOINT OF THE GOVERNMENT. The Reichsbank is expressly forbidden to acquire claims against public authorities. The Reichsbank may grant them only an operating credit of at most 100 million Reich marks - according to par. 25 sect. 2 of the Bank Act. Moreover, par. 25, sect. 6 expressly orders:

"Otherwise, the Bank may neither indirectly nor directly grant credits to the Reich, the German States, municipalities (municipal associations) or foreign governments."

Afterwards, by the Act of 8/7/1926 (RGB1. II, S. 355), the Reichsbank was permitted to discount treasury bills of the Reich up to the maximum amount of 400 million Reich marks, to purchase and sell them, provided only that apart from the Reich somebody else, known to be solvent, guarantees them.

As soon as these limits are reached, the Reich can get no further credit from the Reichsbank. This provision becomes understandable if one remembers that immediately before the passing of the new Bank Act the Inflation occurred, due to the granting of credits to the Reich on the basis of the existing legal tender of the Reichsbank notes. But the fact remains that for the Reich short term finance from the Reichsbank has been extraordinarily limited. This is all the more significant when one considers that the financial requirements of the Treasury have been substantially increased, absolutely as well as in relation to the productivity of the economy. While for 1913 the claims of the government against the national product amounted only to 18%, they may presently amount to between 40 and 45%. The financial needs of the State have more than doubled while its financing opportunities have been reduced.

Everyone knows that the Reichsbank, due to the increasing difficulties of the public purse, was forced to discount and purchase - contrary to the provisions of the new Bank Act - the debt certificates of the Reich, the German States and municipalities. Everyone knows that the credits granted, indirectly or directly, in this way, do exceed many times the limits set by the Bank Act. Altogether, the financial bills of the public authorities discounted by the Reichsbank, amount to about 1.300 billion Reich marks. *The banknotes issued upon these financial bills are essentially a camouflaged State paper money. If one also ponders that silver coins were issued for about 1.376 billion marks then one finds that about 40-45% of the whole money circulation does no longer rest on the principle of commercial bills but on the public sector of the economy.*

With this, truly, the fundamental principle of the Bank Act has been violated, according to which only good commercial bills of the private economy may serve as cover for the issue of banknotes. Consequently, THE CURRENCY TODAY, regardless of all contrary assurances, IS ALREADY UNDERMINED.

Even all this would not yet be decisive. But it is essential that the financial bills of the public authorities taken in this way, could not be repaid within 3 months. The means of payment issued on the basis of these bills did, therefore, not return to the Reichsbank within 3 months. Thus the fundamental principle of reflux was disregarded. The issued notes were not used to repay the short-term debts on the due date, to the Reichsbank. They remained in circulation and thereby was created the precondition for withholding great stocks of notes as HOARDED MONEY.

The difficulty does now consist in the fact that to the same extent as the Reichsbank had to take over the financing of public expenditures, the financing of the private economy became impossible, for the Reichsbank saw itself compelled to restrict credit to the private sector to the extent that it had to take in treasury bills. Thus the emergency of the State pressed down with its full weight upon the private economy and made the exchange of goods difficult to impossible. It is obvious that thereby the shrinkage of the economy was further advanced and unemployment increased.

Thus this aspect must be our focus of attention. One could think of basically returning to the old Bank Act of 1875. However, there are some objections against this. For one, the new Bank Act was passed because of international obligations and can only be changed with the consent of the signatory powers. Although one can expect

that changes of the kind proposed in Chapter I concerning par. 3 of the Bank Act and par. 5 of the Coinage Act, can be achieved without considerable difficulties, this does not apply to the question discussed here. One has rather to expect that the signatory powers will want to preserve the well considered separation between the public and the private sector of the economy. Moreover, there is NO FUNDAMENTAL OBJECTION AGAINST SUCH A SEPARATION. The presently applicable principle, according to which the Reichsbank has to serve the private economy and should make available to the public purse only a limited operating credit, could very well be accepted as a foundation. But one has to give the treasury the financial opportunities which it requires for the fulfillment of its tasks.

IN SUMMING UP ONE CAN STATE:

THE FINANCING OF PUBLIC EXPENDITURES MUST AGAIN BE SEPARATED FROM THE PRIVATE ECONOMY FOR THE PUBLIC SECTOR OF THE ECONOMY AS WELL AS THE PRIVATE ONE, THE VIOLATED PRINCIPLE OF REFLUX IS TO BE RESTORED. ALL ATTENTION SHOULD BE DIRECTED TOWARDS ENSURING THAT THE ISSUED MEANS OF EXCHANGE DO ACTUALLY CIRCULATE, I.E. RETURN AS SOON AS POSSIBLE TO THEIR PLACE OF ORIGIN.

### **CHAPTER III:**

#### **FINANCING OF THE TREASURY**

##### 1. WHAT IS THE PRESENT SITUATION OF THE TREASURY?

THE LONG-TERM INDEBTEDNESS of the Reich, the German States and municipalities, amounts - without the reparation obligations - to 19.86 billion Reich marks, to which have to be added debts to suppliers etc. Altogether, the long term indebtedness may amount to 23 billion Reich marks. This is not excessively high, neither in relation to the German national wealth nor compared with the long term debts of other countries. Thus the Internal debt of France amounts to about 44 billion marks and that of Great Britain, reckoned at gold parity, to about 130 billion marks.

THE SHORT TERM INDEBTEDNESS, apart from 786 million Reich marks of foreign debts, amounts to 3.914 billion marks. Up to 31.3.1933 it will, most likely, have grown to 6 billion Reich marks. One has also to consider that a significant part of this short term debt is in reality a long term indebtedness since it cannot be repaid in the near future. It is also, in relation to the long term indebtedness, excessively high as by 31.3.1933 it will amount to about  $\frac{1}{4}$  of the long term debt while, according to recognized principles of financial policy, it should not amount to more than 1/10.

THE BUDGET DEFICIT of the Reich, the German States and municipalities, will, presumably, come in 1932/3 to about 3 billion Reich marks and if the deficit of 1931 is carried over, even to 4 billion Reich marks. THE MONTHLY CASH DEFICIT of the Reich, the German States and municipalities will have to be estimated at 200 million Reich marks at least, of which about 150 million Reich marks fall on the Reich.

In all this one has to be aware that the extraordinary size of the floating debt disturbs the whole money and capital market. It leads to insecurity on the credit market and to increased interest rates. Finally, it has a negative effect on the liquidity of the banks. As long as extensive debts of the public purse are not consolidated, it is impossible to raise new loans and arrive at a sound financial situation. However, a consolidation cannot take place as long as the price of public loans remains at 50% of their nominal value and even below and thus the effective rate of interest has risen to 12-14%. Nobody will be inclined to entrust new money to the State under these circumstances, especially since by the purchase of old loan certificates he can achieve double the interest rate. It is self-evident that this influences the whole market for long term funds decisively. And yet, a rise in the price of loan certificates does not occur - as there is no demand for them.

##### 2. WHAT POSSIBILITIES EXIST FOR RAISING MONEY?

Fundamentally, the State covers its requirements by taxes. Aside from this, there is the possibility of long term or short term loans. There is general agreement that at present an increase of the tax rates is out of question. Even the introduction of new taxes can no longer raise new revenues. On the contrary, during the progressive

shrinkage of the economy the returns from all taxes fall steadily. Even in association with a severe further reduction of salaries the budget cannot be balanced by tax increases.

To achieve a FOREIGN LOAN is completely impossible, already for political reasons, seeing the uncertainty of the present situation. An internal loan, likewise, does not promise success. Nobody will subscribe to a new loan as long as the price of the old one is only at 50%. Even promises of tax and similar advantages cannot help here. For the same reason lottery bonds cannot be successfully launched at this time either.

The avenue of SHORT TERM CREDIT from the Reichsbank has been expressly interdicted for the Reich by the Bank Act. If one wants to improve the present situation then one must under all circumstances firmly insist THAT AT LEAST IN FUTURE THIS PROHIBITION OF THE BANK ACT IS OBEYED.

But even if one believed to be able to ignore the provisions of the law on this matter, due to the present emergency, the Reichsbank will become unable to provide the private economy with the required means of payment to the same extent as it finances the public purse. Thus, even if the Reichsbank, contrary to the provisions of the Bank Act, were to continue to discount treasury bills of the Reich, the present situation would not be improved but, instead, THE SHRINKAGE of the economy WOULD BE SPEEDED UP. Thus the Proposals of the Law Drafts aim at the following:

- a) To allow the Reich to finance itself by the issue of treasury notes (Draft II) &
- b) to create a steady demand for government securities by means of establishing a clearing opportunity for them, against tax debts, thus raising their price and preparing the way for new loans (Draft III).

### 3. THE DRAFT OF A LAW ON TREASURY NOTES

The issue of treasury notes is designed to satisfy the short term needs of the public purse.

In this fashion an avenue shall be opened for the Reich which was closed for the Reichsbank by the new Bank Act. We have here, also, the precedent of the old Act on Treasury Notes of 30.4.1874 (RGBl. 40) which, in turn, is formulated according to various previous models, especially Prussian and Austrian ones. The Law Draft follows this law in principle. The starting point is the par. 5 of the law of 30/4/1874 which ran:

"The treasury notes will be accepted at all pay offices of the Reich and all federated States ACCORDING TO THEIR FACE VALUE and will be exchanged by the Chief Pay Office of the Reich for cash currency, upon demand.  
FOR PRIVATE TRANSACTIONS THERE IS NO COMPULSION (LEGAL TENDER) TO ACCEPT THEM."

The clause on redemption is out of question for the present BUT THE OTHER TWO SENTENCES CONTAIN IN ESSENCE THE WHOLE PRINCIPLE UPON WHICH THE CONCEPT OF TREASURY NOTES RESTED. The State must recognize against itself the certificates it has issued. This is self-evident, for every debtor has, naturally, to recognize his own debt. But beyond this there is to be no compulsion at all regarding their acceptance. There is no compulsory circulation and in private transactions - as before the war - nobody in Germany is obliged to accept the treasury notes.

Thus their value does not rest upon government fiat. It is more firmly established than upon legal tender, namely upon the STEADY demand by the Reich and all public pay offices. Everyone is entitled to pay his taxes and other dues in treasury notes and ALL PUBLIC PAY OFFICES ARE OBLIGED TO ACCEPT THEM AT ANY TIME AT THEIR FULL NOMINAL VALUE, REGARDLESS OF THE PRESENT MARKET VALUE OF THE TREASURY NOTES. Thus the circulation of treasury notes rests, similar to that of sound banknotes, not upon compulsory acceptance (legal tender) but upon the principle of reflux.

In both cases we have in essence bridging finance. Basis for the issue of the treasury notes are the coming-up tax revenues of the Reich. They, like the discounted bills of exchange, in the issue of banknotes, form the cover. The treasury notes have thus a tax foundation while the banknotes are based on the commercial bills. When the taxes are paid, the treasury notes flow back to the Reich in the same way as the Reichsbank, on redemption of the commercial bills, gets again possession of the banknotes it has issued. Thus in both cases the circle is closed and can begin anew.

It is of extraordinary interest that already the old Prussian "Further Regulation on the Treasury Notes" of 5/3/1813, has among other things the following to say on this question:

Par. 3: These Treasury Notes and Thaler Tokens are to be considered as tax

assignments which are realized through the newly instituted property and income tax of the regulation of 19/1/1813, in paragraphs 11-15. As soon as they have been returned in payment of these taxes, they have to be destroyed..."

Par.8: "...As these Treasury Notes and Thaler Tokens are acceptable at their nominal value for the property tax, they are an assignment to compensate in the shortest possible way ..."

This regulation was signed by VON HARDENBERG.

NO UPPER LIMIT is required for the issue of treasury notes. It would, indeed, be difficult to determine such a limit. Presently, a sum of 1-1.5 billion Reich marks may be suitable. But within a short time the situation may have changed and exactly when it would become possible to reduce the floating debt through the issue of treasury notes and thus to relieve the Reichsbank, whatever limit had been fixed, might prove to be too small. Self evidently, the total amount of the issues must be proportionate to the expected tax revenues of the treasury - so that all issued treasury notes can always be evacuated from the general circulation by the demand exerted by the treasury. The present yearly requirements of the treasury amount to approximately 18-20 billion Reich marks, at least. Thus they exceed many times the amount envisioned for the issue of treasury notes.

The most effective means to determine the upper limit for the issue of State paper money of any particular time is THE FREE MARKET RATE. IF THIS EXCHANGE RATE FALLS THEN TOO MUCH MONEY HAS BEEN ISSUED AND FURTHER ISSUES MUST CEASE."

(Note by J.Z. on the previous paragraph;  
Further issues not only "MUST" but "WILL" case, IN THE INTEREST OF THE TREASURY! For Instance: A nominal 100 marks in treasury notes, issued today to purchase 95 marks worth of goods - due to a 5% fall in the exchange rate - can already today or tomorrow be returned in payment of 100 marks of taxes. This would thus lead to a revenue loss of 5% of the discounted issue within 1 or 2 days only! No government is willing to reduce the tax burden by that much and that fast. Back to Dr. Zander's comments :)

For this reason the Draft prescribes that treasury notes are to be quoted daily on all public exchanges. It also prohibits the further issue of treasury notes in case the market rate has fallen below 95% of the nominal value, even if only for a few days. In this way the most effective control imaginably is exercised over the value of the treasury notes. Should their market value indeed sink once to 95% or below then, when further issues cease, a shortage must soon result which must bring the market value back to parity. In this case everyone would attempt to acquire treasury notes as he could use them at their face value for his tax payments - with a profit margin for himself. Similar regulations existed before, especially in Prussia and Saxonia. Then it was even prescribed that certain taxes are always to be paid in state paper money - under threat of a small penalty consisting in an additional small payment required. Such an obligation has not been integrated in this draft as it can safely be assumed that the market rate of the treasury notes will not fall below their nominal value. But the Finance Minister of the Reich has been authorized, by par. 9 of Draft II, to issue such a regulation.

To ensure strict adherence to the essential provisions, an exact CONTROL BY THE SUPREME AUDITING OFFICE OF THE GERMAN REICH has been provided. Daily balances are to be published in the German Reich Bulletin and the Prussian State Bulletin and they are to be certified by the auditing office.

WHAT ADVANTAGES DOES THE ISSUE OF TREASURY NOTES OFFER, COMPARED WITH THE PRESENT SITUATION?

A perplexing and confusing condition will be replaced by a clear separation between private money of the economy, based on good commercial bills, and the paper money of the State. All existing doubts are thereby removed. The Reichsbank will have to discount, again, in exact accordance with the provisions of the Bank Act, those bills of exchange which arise in the private economy and have to assure their punctual repayment on the due dates. The State, for its part, will be freed of the undignified situation in which it has to satisfy its short-term financial needs from the Reichsbank in a roundabout and secret way. The care for its short-term finance is left to the State itself and it will have to take full responsibility for this.

This solution brings also considerable INTEREST SAVINGS for the State. The roundabout way of discounting financial bills at the Reichsbank caused costs which, even considering the profit-sharing of the Reich with the Reichsbank, amount every year to

at least 50-100 million Reich marks. This amount is saved in the future. Moreover, the Reichsbank will be freed from the task forced upon it to carry out the short term financing of the treasury. It will thus be relieved and can dedicate itself to the task given to it by the law, to finance the private economy. One can, therefore, hope that the LIQUIDITY OF THE REICHSBANK will be raised in this way. Finally, to the degree that the Reichsbank becomes completely freed from the burden of public finance, the situation of the private economy will be eased and at least this cause of the shrinkage of the economy will be abolished.

Here it must be added that the existing Bank Act does not prohibit the issue of treasury notes. In the report of the London Experts (Dawes Report) there was, indeed, such a clause but it was not included in the Act. Moreover, the concern then was obviously only about State paper money with legal tender, whose issue would, indeed, have meant the greatest dangers of inflation. That a State paper money without legal tender cannot bring about inflation has already been explained.

#### 4. THE DRAFT OF A LAW TO FACILITATE TAX PAYMENTS WITH DEBT CERTIFICATES AND LEDGER CLAIMS

The third of the Drafts submitted refers to the long term credit of the treasury. It intends to raise the market rate of public loans and to create thereby the possibility to issue new loans.

The draft does thus also rest on the self-evident principle that every debtor must recognize his own debt as a means of payment against himself. The draft has taken very much care that the cash situation of the public purse is not deteriorated thereby. The underlying principle is, therefore, that only DUE tax debts can be cleared with DUE loan claims. Every tax debtor having due claims out of a public loan against his tax creditor, is therefore enabled to clear his debt against that of the treasury. To the extent that both claims are due, a useless shuffling about of means of exchange is thereby avoided. This does also apply when clearing is permitted already 30 days before the due date for the government, on, its side, has to provide for the money required about 1 month before its loan certificates or interest coupons become due. In England the bills of the Exchequer can already be given to the State in payment 6 months before they are due. Self evidently, the clearing will take place regardless of the current market value of the government securities that is AT THEIR NOMINAL VALUE. Thus every tax debtor will try to acquire a due or almost due government security, as long as its market value allows him a profit. Thereby, a DEMAND IS CREATED which is suitable FOR RAISING THE MARKET RATE.

It is obvious that a clearing only with the already due obligation of the Reich would not immediately suffice to create a large enough demand to fully raise the market rate. Thus the draft has gone beyond this. With regard to DEATH DUTIES, it permits clearing even with loan certificate - which are NOT YET DUE. As the time of death is uncertain, it is only fair to confine clearing in these cases not to the due dates. The resulting loss in cash revenues for the public pay offices would be relatively small. Death duties brought last year only about 80 million Reich marks, altogether. If, furthermore, one considers that debtors of death duties have a legal claim to an extraordinarily long payment period, then the clearing of not yet due claims can be upheld in this case. The demand for State securities created in this way will probably exceed the value of the yearly death duties many times. If thus a demand of about 300 million Reich marks were created, this would mean a DAILY TURNOVER OF ABOUT 1 MILLION MARKS in government securities.

Moreover, the draft provided for the clearing of OVERDUE TAXES ALSO with not yet due government securities. As a large part of the overdue taxes has anyhow to be written off, a part payment could perhaps be achieved in this way.

Finally, the draft provides for a CLEARING OF NOT YET DUE LOAN CERTIFICATES WITH NOT YET DUE TAXES. It offers the possibility to hand in to a public pay office a debt certificate which is due in the future or to assign to it ledger claims which later on, on the due date, are to be cleared against the tax debt falling due in the future. For this purpose the Draft Introduced the possibility to establish TAX ASSETS.

All these proposals have in common that CLEARING TAKES PLACE ALWAYS AT THE NOMINAL VALUE or, in case the repayment amount is higher, then at this amount, without regard to the then existing market rate of the cleared loan certificates. Thus, the lower the market rate is, the greater will be the INTEREST FOR THE TAXPAYERS to acquire loan certificates for clearing purposes. In this way a STEADY DEMAND FOR LOAN CERTIFICATES

is to be established which is all the greater the lower the price of the securities has fallen. The situation is thus completely different from support purchases of securities by the treasury. In the latter cases we have an external measure whose permanence and success can never be predicted and which has a lasting effect only in rare cases. On the other hand, the DEMAND created by the Draft ARISES OUT OF THE ECONOMY ITSELF. The demand is steady and lasting and it does not cost the government any additional means.

THE GOLD VALUE of all down payments on tax assets should be ASSURED to the taxpayer. Moreover, the owner of the certificates should be protected against all subsequent reductions of interest, consolidations and conversions of the certificates submitted for clearing.

It is self-evident that each tax can only be cleared with claims against this tax creditor. Each municipality and each State would therefore only be obliged to accept ITS OWN LOAN CERTIFICATES in clearing.

#### SUMMARIZING REMARK

Through the above measures the Reich is enabled to undertake its short term FINANCING itself, independent from the Reichsbank. At the same time THE REICHSBANK IS TO BE RELIEVED and the floating debt of the Reich is to be reduced. The FACILITATION OF TAX PAYMENTS through clearing shall increase THE DEMAND for PUBLIC SECURITIES and will thereby raise their market rate. When this is successful, the road is open for the ISSUE OF NEW LOANS AND THEREBY FOR A CONSOLIDATION OF THE FLOATING DEBT. Moreover, through the increase in the price of securities, the EFFECTIVE INTEREST RATE BECOMES REDUCED and one can then hope to achieve in this way a BEARABLE INTEREST RATE FOR LONGTERM CREDIT IN GENERAL.

### CHAPTER IV:

#### **FINANCING OF THE PRIVATE ECONOMY**

##### 1. THE REICHSBANK

Primarily, the Bank Act has to be restored. This has already been sufficiently discussed in the above. The Reichsbank is to be freed of the burden of public finance and to be restored to its proper task, that of financing the private economy. The Reichsbank may never again, in future, acquire or discount claims due in more than three months. Prolongations must be excluded. In other words, the principle of REFLUX is to be re-established.

For this purpose there appears to be no other way out that to DRAW A FUNDAMENTAL LINE OF SEPARATION BETWEEN THE PRESENT AND THE FUTURE SITUATION. There must be a distinction between OLD BUSINESS and NEW BUSINESS as happened after the inflation. The former is sick and must be wound up, slowly. The latter should be free to develop in accordance with the Bank Act, without being burdened by former events. Self evidently, there is no thought here of a juridical separation of the property involved. Here there are only measures within the united enterprise of the Reichsbank.

For the liquidation of the OLD BUSINESS the following rules should apply:

To avoid an exchange rate loss, the currently circulating banknotes receive for a certain time, similar to the treasury notes, a TAX FOUNDATION. This ensures that up to this fixed date they are to be accepted by all public pay offices at their full nominal value, in payment of all taxes. Also and up to this time, they can be paid in to establish TAX ASSETS.

After this period the public pay offices would have to accept these notes only at their market rate. In this situation it appears advisable not to extend this period for too long as the intention is to withdraw in this way even the HOARDED NOTES.

For the NEW BUSINESS the present rules of the Bank Act apply. In this respect nothing will be changed.

The Reichsbank should in the future, as well, discount only bills of the private economy and at that only good commercial bills. They should mature in at most three months. The banknotes issued upon these bills must thus flow back within this short period.

New is only the provision according to which the issue of banknotes must cease whenever during the preceding month one quarter of the credits granted under this Act

have not been repaid. By this clause reflux should be safeguarded more so than by the former provisions.

Furthermore, the present Bank Act is supplemented by an extension of the provisions on PUBLICITY FOR THE REICHSBANK'S ACTIONS and the control of its business conduct by the Auditor General. Even for this the Bank Act of 1875 sets a precedent.

All banknotes issued after this Act comes into force, shall be distinguishable from those circulating so far, in order to let the liquidation of the old business become obvious to the public.

In this way there can be hope to restore to the Reichsbank freedom of action by a return to the Bank Act.

## 2. CLEARING BANKS

With the above proposal alone, unemployment cannot be effectively fought. To restore the disturbed private economy there must be established, PARALLEL to the central note issuing bank, institutions which make free exchange in the economy possible. The centralization of the whole economic life in a central bank is not completely realizable, as has been demonstrated, and it is, from a certain limit on, associate with considerable dangers. The crisis of 1931 led right in the beginning to the breakdown of the complete system of giro payments (non cash transactions) and has put the credit institutes out of action.

Moreover, the central bank of every country is subject to strong influences from foreign countries. Everyone knows that the withdrawal of gold from the central note issuing bank exerts a political pressure on the economy of even the most powerful States. This applies all the more to Germany where the gold stocks of the Reichsbank have melted away to an extreme extent.

There can be no doubt that each disturbance of the exchange of goods is to be avoided as far as possible. This has nothing to do with the question whether the economy is striving for autarchy or not. For in no case should the exchanges of goods WITHIN a country be rendered impossible because there were disturbances in the relations with FOREIGN COUNTRIES.

Thus the economy should be permitted to establish CLEARING BANKS AS A SELF-HELP MEASURE WITHOUT ANY SUBSIDIES and without any government restrictions. Their task should be to bring into contact the available raw materials and products with the existing labor power and needs WITHOUT REQUIRING CASH CAPITAL and thus to contribute significantly to the ABOLITION OF UNEMPLOYMENT.

The clearing banks correspond in their structure essentially to the note issuing banks. The clearing banks, also, should discount sound commercial bills and, similar to the note issuing banks, split them into typified means for circulation. The validity of the claims purchased by them or accepted by them as the basis for loans, is likewise limited. Clearing banks rest also on the principle of reflux. But, contrary to the note issuing banks, they should be under NO OBLIGATION AT ALL TO PAY IN CASH OR TO REDEEM. All their business transactions shall only take place in the form of CLEARING. In this the self-evident principle would apply that each debtor has to recognize his debt - as far as it is due - as a means of payment against himself. The subdividing of the purchased bills or those held as security, takes place through the issue of clearing cheques drawn by the customers against the clearing bank. These cheques shall only be issued in typified small denominations as, essentially, they should serve to pay wages.

The provisions of the Cheque Act are in so far supplemented as these typified clearing cheques may be accepted by the clearing banks. The clearing banks, moreover, may issue only those forms for typified clearing cheques which are already marked with their endorsement. Through this acceptance a direct claim is established of the bearer of the cheque against the clearing bank.

Moreover, an extension of the statute of limitations period to 3 years has been provided and the clearing banks are instructed to point out, in time and publicly, when this period expires.

Contrary to the so far known clearing cheques, the clearing principle has in this instance been, indeed, radically and consistently applied. Thus the bearer cannot insist on cash from the clearing bank - even after the clearing cheque has been credited to him. The cheque establishes only a claim to be credited with it.

HOW DOES BUSINESS WITH THE CLEARING BANK PROCEED IN DETAIL? The customer gives the bank a commercial bill for goods sold by him, either for discounting or as security for a loan. In return, he receives from the bank forms of typified clearing cheques.

These forms are printed. They express certain round denominations and are already endorsed by the bank. The customer adds his own signature to these forms and uses them for wage payments - and puts them in this way into circulation.

When the bill discounted by the clearing bank becomes finally due, the drawee can fulfill his obligation towards the bank by handing in clearing cheques of this bank - for the bank has to accept the clearing cheques endorsed by it at any time and at their nominal value. When the bill debtor (drawee) fulfills his obligation in this way, i.e. through delivering clearing cheques, then these flow, AS HAPPENS WITH THE BANKNOTES OF THE REICHSBANK, back to the bank by the due date of the bill.

If the drawee does not pay in clearing cheques but instead in Reichsbank notes or Treasury Notes - which he is, naturally, free to do - then thereby the clearing bank receives the cash necessary to purchase the outstanding clearing cheques issued for the redeemed bill, and thereby it does redeem them in cash. As the clearing banks are not to conduct any other classes of the banking business, there is a provision in Draft IV, par. 8, obliging the clearing banks to use these cash receipts for the purchase of their clearing cheques or at least to keep them in readiness for this purpose. In any case, therefore, the circulation is closed, similar to that of the Reichsbank.

HOW DOES THE WAGE EARNER USE THE CLEARING CHEQUES? He will pay with them in all those shops which do business with the clearing bank and thus need clearing cheques to fulfill their obligation towards the Bank. In this way EXCHANGE COMMUNITIES will develop which mutually cancel their claims and debts through the clearing bank. Self evidently, the Reichsbank's banknotes will not be replaced in any way by this. It is furthermore self evident that these clearing cheques have no enforced value or compulsory acceptance (legal tender). Only the clearing banks themselves are obliged to accept their endorsed clearing cheques at any time and at their full face value without regard to their exchange rate. Beyond this, the bank remains free to conclude agreements with its customers, within the framework of their general business conditions, to assure that its customers will also accept the endorsed cheques of the bank in payment up to the amount of their remaining debt with the clearing bank.

The exchange system created in this way is - contrary to the previous systems - safe against runs. The clearing cheque does not establish a claim for a cash payment but merely a right to clear. Thus, even in a suddenly occurring crisis, a run on the clearing banks cannot happen. Consequently, the system of non-cash payments will insofar remain unshakeable in the future.

#### SOME REMARKS ON DETAILS

While the bills discounted by the Reichsbank should mature in at most 3 months, for clearing banks a maturity in 4 months seems acceptable. Thereby, the needs of agriculture could also be satisfied at the same time, seeing that generally it requires longer credits.

Similar as with the treasury notes, the Draft secures the reflux by the condition that new issues depend on a monthly reflux of 1/5 of the credits granted. It is notable, furthermore, that the clearing banks can also buy or lend money on other claims, arising out of goods sales or services rendered, than commercial bills. However, it is decisive that all bought or otherwise held bills or claims must originate from actually concluded sales of goods or from service contracts. Thus we have here always SIMILAR TO THE DISCOUNT BUSINESS OF THE REICHSBANK only a so-called DISCOUNT MONEY and NEVER a so-called LOMBARD MONEY.

It is the responsibility of the clearing bank to check each bill to find out whether it refers indeed to a goods transaction. This task is here the same as that prescribed by the Bank Act for the Reichsbank. But the clearing banks, due to their smaller business volume and their stronger personal ties, will find it easier to fulfill this task than the Reichsbank does.

Finally, there is the clause insisting that clearing banks are to be connected to an auditing office which would have to receive a monthly report on their activities

If the above stated principles are upheld in all credits granted then an inflationary effect is entirely excluded as all cheques circulating are always balanced by short term claims which are based on goods turnover or on equivalent service agreements. It may suffice to refer here to Lexis' "Handbuch der Staatswissenschaft" (Handbook on Public Affairs), 3rd. edition, article "cheque":

"With regard to the effect of the cheque on price developments, it is entirely neutral whenever it arises only from real goods transactions. Lastly, it brings about the exchange of goods and in this all participants have an interest in keeping the measuring unit of exchange values, the value of the money unit, unchanged. But whenever cheques are issued on the basis of financial bills or on Lombard loans, which are not covered by goods but by securities, then they constitute an arbitrarily added artificial purchasing power in the goods circulation which has a price increasing effect - whenever this happens beyond the customary and average existing degree - in the same way as it happens under similar circumstances with the additional issue of banknotes."

Thus one can hope that through the clearing banks an effective means will be established to fight unemployment. Moreover, quite generally, the exchange of goods will be facilitated.

ASIDE THE ALL POWERFUL CENTRAL NOTE ISSUING BANK IN BERLIN THERE WILL STEP FREE PAYMENT AND EXCHANGE COMMUNITIES IN THE WHOLE COUNTRY. THE DISADVANTAGES SUFFERED BY THE PROVINCES AND AGRICULTURE WILL END AND THE GOODS EXCHANGE WITHIN GERMANY WILL BECOME INDEPENDENT OF THE GOLD OF FOREIGN COUNTRIES.

\*\*\*\*\*

Dr. Walter Zander

Dr. Walter Zander was a lawyer and refugee from Nazi Germany who settled in England. After the war he was a representative of the University of Jerusalem in London and also something like an unofficial ambassador for Israel. As a memorial, he had recently got established a special website by his sons, see <http://www.walterzander.info>.

Prof. Dr. Heinrich Rittershausen was the author of many books (bibliography is being prepared). A biography is available at <http://www.reinventingmoney.com/rittershausenBiography.php>. Some of his works are available online:

- UNEMPLOYMENT AS A PROBLEM OF TURNOVER CREDITS AND THE SUPPLY OF MEANS OF PAYMENT  
(<http://www.reinventingmoney.com/documents/RittershausenUnemployment.doc>)
- DIE ARBEITSLOSIGKEIT ALS PROBLEM DES UMSATZKREDITES UND DER ZAHLUNGSMITTELVERSORGUNG  
([http://www.reinventingmoney.com/rittershausen/001Arbeitslosigkeit\\_Umsatzkredit\\_und\\_Zahlungsmittelversorgung.htm](http://www.reinventingmoney.com/rittershausen/001Arbeitslosigkeit_Umsatzkredit_und_Zahlungsmittelversorgung.htm))
- ARBEITSLOSIGKEIT UND KAPITALBILDUNG  
([http://www.reinventingmoney.com/rittershausen/002Arbeitslosigkeit\\_und\\_Kapitalbildung.htm](http://www.reinventingmoney.com/rittershausen/002Arbeitslosigkeit_und_Kapitalbildung.htm))
- GELDTHEORIE (<http://www.reinventingmoney.com/rittershausen/003GELDTHEORIE.htm>)
- DAS ANDERE SYSTEM  
([http://www.reinventingmoney.com/rittershausen/004Das\\_andere\\_System.htm](http://www.reinventingmoney.com/rittershausen/004Das_andere_System.htm))
- DER NEUBAU DES DEUTSCHEN KREDITSYSTEMS  
([http://www.reinventingmoney.com/rittershausen/005Neubau\\_des\\_Kreditsystems.htm](http://www.reinventingmoney.com/rittershausen/005Neubau_des_Kreditsystems.htm))
- DIE REFORM DER MÜNDELSICHERHEITSBESTIMMUNGEN UND DER INDUSTRIELLE ANLAGEKREDIT  
([http://www.reinventingmoney.com/rittershausen/006Muendelsicherheitsbestimmungen\\_und\\_Industrieller\\_Anlagekredit.htm](http://www.reinventingmoney.com/rittershausen/006Muendelsicherheitsbestimmungen_und_Industrieller_Anlagekredit.htm))
- DIE VALORISIERUNG DES GOLDES  
([http://www.reinventingmoney.com/rittershausen/007Die\\_Valorisierung\\_des\\_Goldes.htm](http://www.reinventingmoney.com/rittershausen/007Die_Valorisierung_des_Goldes.htm))
- DAS ANDERE SYSTEM 1948  
([http://www.reinventingmoney.com/rittershausen/008Das\\_Andere\\_System\\_1948.htm](http://www.reinventingmoney.com/rittershausen/008Das_Andere_System_1948.htm)).

However, his complete works, containing more writings on monetary freedom, can only be found in the archives of the University of Cologne of which he was Dean for a few years. Sooner or later the case for monetary freedom will win - if mankind has a future left at all - and these drafts can help to assure such a future if they are paid attention to.

If there is enough space at the end of this fiche left then I will append the text of the German original for the benefit of those who are rightly dissatisfied with my translation work.

For the time being I give this platform to "Oberlandesgerichtspräsident i.R." (Supreme Court Judge, rtd.) Dr. Best, who used to live in Darmstadt, and gave a review of Professor Rittershausen's book on the 4 Law Drafts, in a 19 pp pamphlet published by the "Sparerbund" (League of Savers), between 1932 and 1933. Please note here that I am still searching for a copy of this book by Rittershausen. Dr. Best is not one of the co-authors of the Drafts and is also not fully conversant with the monetary theory behind it but he approved of the proposals on general principles. His style is one of the worst examples of the public service idiom and much of this will, unfortunately, leak through into this English translation.

# **FOUR LAW DRAFTS**

By  
**DR. BEST**  
**OBERLANDESGERICHTSPRAESIDENT I.R.**

Dr. Rittershausen, lecturer on real estate credit (Realkreditwesen) at the university of Frankfurt/M, made in his book "Das Andere System" (The Other System), published by Georg Stilke, Berlin, 1932, an economic and financial proposal in 4 law drafts on which he has worked together with 6 other experts. As the ingenious expositions of this book are of special interest for the, German saver and investor as well as for all who with them expect a

RECOVERY ONLY FROM THE RETURN TO HONEST LEGISLATION AND ADHERENCE TO CONTRACTS,

I give them here in some extracts from it and add only some short remarks. For a better survey and to facilitate comparisons with the book itself, I offer the most important headings of the book as well as the pages in which the subject matter is dealt with. I now begin with the extract:

## **I. FUNDAMENTAL BREAK WITH THE PRESENT SYSTEM OF POLITICAL ECONOMY (pp 7-11)**

Contrary to the time before Emperor William II, the present monetary, banking and economic policy is characterized by

LEGAL TENDER, CENTRALISM AND LACK OF LEGISLATIVE HONESTY.

In all these respects the aim should be the contrary of the present system and instead, we should strive to return to the Prussian-German system which made Germany great and wealthy.

## **II. CONFRONTATION OF THE TWO GOVERNMENT SYSTEMS IN THREE PRINCIPLES (pp 12-35)**

### **1. LEGAL TENDER (THE PRINCIPLE OF COMPULSORY ACCEPTANCE) (PP 12-19)**

Compulsory acceptance for banknotes as full value means of payment, even in cases of depreciation - introduced in Germany only since 1/1/1910- has created the legislative precondition for inflation. Without it, inflation would be self evidently impossible. Without it, optional means of payment can only ruin themselves in cases of abuses or over-issue but they can never ruin the currency. One of the worst consequences of legal tender is the destruction of the claims in millions of current debt contracts whereby whole sections of the population are expropriated. While today's governments refuse, under protest, to repeal legal tender, Frederic the Great, Hardenberg and Baron von Stein would have preferred a discount of the paper money to the expropriation of creditors.

Likewise the wars of 1866 and 1870 were fought without legal tender. Only the modern German system led to inflation through legal tender and continues to expose the people to the danger of a new inflation. Therefore, the repeal of this fraudulent coercion is a fundamental precondition for the restoration of the health of the economy.

### **2. CENTRALIZATION (PP 19-28)**

The un-German centralized credit policy which put the Reichsbank in the place of 33 private note-issuing banks, had in essence the following destructive effects on the economy:

- a) It ended the close contact with the daily goods distribution by producers and the financing of their turnover credits and their wage payment requirements, by means of the transformation of commercial bills of exchange into means of payment.
  - b) An unsound system of large corporations was bred. They were the result of legal tender in connection with the repeal of the redemption obligation (which freed the Reichsbank from the last restraints), the illegal breach of the real bills principle and the forbidden discounting of financial bills of arbitrarily allocated personal credits.
  - c) The imposition of the Big Banks between the economy and the Reichsbank and, thereby, the dictatorship in the sphere of credit exercised by a handful of powerful directors - who have, moreover, a personal financial stake - on whose arbitrary decisions whole branches of industry depend.
  - d) The credit crisis of 1931 which protected, in the interests of the Reichsbank, the artificially bred large corporations and destroyed the medium and small enterprises which had remained healthy.
  - e) By the abolition of small and medium enterprises the market for the major industries was destroyed.
  - f) The creation of a gigantic state trust system, distinguished from Bolshevism only by the name, which pays billions in subsidies to these bred large corporations, funds which the taxpayers can no longer afford. Thereby an overpowering competition was established against the remaining independent industries which will finally lead to a centralized production and distribution system according to the Bolshevik model.
- Salvation would only be possible by turning away from centralization. But a sound provincial banking system could only exist where the note issue would be decentralized also and no longer disturbed and inflated by privileged institutions.

The question of national independence towards international financial powers would be settled by the fight against centralization. The dictatorship of the compromised directors of the large banks must be broken and the financial independence of medium and small industries as well as of farming must be re-established.

It is an intolerable situation when the existence of millions is dependent upon arbitrary credit allotment by an irresponsible central institution which, moreover, keeps its position only through continuous breaches of the law. Like inflation is possible only with legal tender, so is deflation only possible under the note issue monopoly - which is always associated with the centralized credit system. If under a free banking system an unsound bank would refuse to discount a sound bill of exchange, the businessman concerned could receive this service from another bank, a sound bank.

Only the note issue monopoly allows excessive interest rates whilst under the free system interest would be reduced to the handling and risk charge.

(NOTE by JZ: This applies **only** to short-term or turnover credit!)

### **3. THE IDEA OF AN HONEST STATE**

The consequences of today's dishonest legislation on general honesty in contracts characterize today's unpopular and ineffectual economic policy. When, indeed, the Coinage and Currency Acts are ambiguous, when one argues against inflation but retains compulsory acceptance, when one talks of the gold standard but has in fact only a paper currency, then such a system can only be called dishonest in the terms of a "Rechtsstaat" (Lawful State). Legal tender, which alone makes inflation possib

le, is not only objectively dishonest but also subjectively, as the Banking Act of 1909 would have been senseless if there had not been, from the first, the intention to enforce inferior payments as full payments

The Coinage and Bank Acts are ambiguous by only indirectly stating that 1 Reichsmark would be equal to 1/2790 of a kg of gold and by talking of a gold standard while really introducing a double standard or indeed a simple paper currency. Likewise, the law on value preserving mortgages of 23/6/1923 is dishonest as, in a concealed way, it permitted the retroactive renunciation of the agreed upon gold clause (p. 33). It is also dishonest when - in agreement with this - the government continuously fights against gold pricing and gold clauses and when malevolent debtors insist that when an inflation threatens all gold clauses should be repealed. Moreover, it is also dishonest to continue covering up a foreign loan of 620 million Reich marks in the balance sheets of the Reichsbank. The State's concept of "honesty", expressed in the current legislation, is therefore to be considered as the final reason for the failure of all government attempts of the last few years. The fight against distrust, crisis and inflation could only be conducted victoriously by a return to the radical concept of honesty upheld in the Germany of before 1890 and by its legislation. The weakness of today's government methods would not lie in accidental disasters but in the incapacity of their basic moral foundations.

With the shameful system of compulsory acceptance, with a Bolshevistic and destructive centralization and with ambiguous laws, no great country can be successfully governed in the midst of difficulties and enemies. More effective government measures and policies must be utilized and history shows where they were developed and what they have achieved. This other system should be applied to today's situation.

### **III. THE MAIN IDEAS OF THE 4 LAW DRAFTS**

#### **1. THE PRESENT SITUATION AS A STARTING POINT (PP 37-44)**

The continuance of the present system would make the continuance of unemployment relief payments impossible, as the government's cash is almost exhausted, and would thus lead to civil unrest and riots and thus to inflationary note printing and finally to the collapse. The function of a new system would be to make another inflation impossible, to end deflation and to lower the disastrously high interest rates in a natural way.

The way to achieve this can be found by comparison between the conditions of 1923/4 and today. Then the Reichsbank used only 7% of its means for the discount of commercial bills of exchange and lent the rest illiquidly to the Reich. Today, likewise, from its 3.5 billion Reich marks in credits, it has, breaching the Bank Act in the same way, lent 1.5 billion Reich marks to the Treasury and 1 billion on long terms to illiquid financial corporations. Thus it could only make 800 million or 21% of its means available for genuine turnover credit for the economy. As it is impossible to achieve the distribution of a normal monthly production of goods valued between 10 and 15 billions with such a minimal cash circulation, today, as well as then, almost the total turnover of goods has come to a standstill and in the absence of sales opportunities, the prices of goods, real estate and securities have fallen to a minimum, reckoned in gold.

This situation is all the worse as the note issue monopoly of the Reichsbank and the special prohibition of private means of payment of October 31. 1931, have penalized every self-help measure.

The Gerecke Plan brought a turn for the worse by requiring, for large public orders, still further illiquid credits for the treasury - thereby further withdrawing credit from the private sector.

At the end of 1923, the turnover of goods was immediately restored by using half of the means of the central-note issuing bank and almost all of the means of the relieved Reichsbank to finance turnover credits. Thus, today, to end deflation, the following steps should be taken:

1. The establishment of an absolutely honest and value preserving currency and reckoning in it.
2. The relief of the Reichsbank of the obligation to give credit to the Reich, the German States, municipalities and financial corporations.
3. The creation of a new and decentralized system for the issue of means of exchange in order to fully satisfy the genuine requirements of the economy for turnover credit.

The Four Law Drafts went still beyond this and made provisions to achieve the natural settlement of existing debt relationships - which, presently, are mostly coercively disturbed. They want to achieve this without inflation, devaluation, reduction or conversion of debts etc. by extending the principle of clearing (paragraphs 387 -396 of the German Civil Code ) contractually in the private sector and by legislation in the public sector.

## **2. THE RESTORATION OF THE SHORT TERM CREDIT OF THE REICH THROUGH THE ISSUE OF NON-INFLATABLE TREASURY NOTES (PP 44-54)**

The hidden deficit of the Reich, the German States and municipalities would run up to 2-3 billion Reich marks. As the Reichsbank - over the circuitous route of the "Acceptance and Guaranty Bank" and the large banks - has discounted financial bills of the treasury for around 1.3 billion Reich marks and as about 1.4 billions are circulating in Silver, already today almost half of the total money circulation consists out of a camouflaged state paper money. To cover the new deficit with the prohibited issue of irregular state paper money with an ENFORCED CIRCULATION (LEGAL TENDER) would therefore mean inflation. Thus, in continuance of the German, especially the old Prussian tradition, the issue of treasury notes is required. The provision that the people need not accept them at their nominal value, in case of depreciation, would prevent inflation and their tax foundation would turn them into standardized tax cheques. This tax foundation would consist in the obligation of the Reich, the German States, the municipalities, the railway and the post office, to accept these treasury notes at par in all payments, dues and for all services. This would ensure an annual reflux of 18-20 billion Reich marks and would thereby guarantee the full value of a circulation of only about 2 billion Reich marks in treasury notes - much better than a gold or foreign exchange cover could. Even in good times the issuance of such tax foundation money would be recommendable - in order to avoid deflationary stoppages. But at present, when government gathers to itself up to 45% of the total national income in various taxes and dues, without supplying the means of payment required for these dues, sales difficulties and unemployment are inevitable consequences of such a deflation.

As a result of the issue of these treasury notes, the Reichsbank would be significantly relieved of the burden of discounting financial bills and would be enabled to make available to the economy sufficient turnover credits - in fulfillment of its legal task.

For a transition period the tax foundation should be retained for the so far issued notes of the Reichsbank. Otherwise, they would depreciate because they are not based on sound commercial bills of exchange.

As in spite of all precautions the treasury notes and other means of exchange might, temporarily, depreciate and suffer a discount, and in order to safeguard all transactions, the formerly required official quotation should be required again, of all treasury notes, banknotes and of all others of the most important means of payment - on all German stock exchanges.

To safeguard the treasury notes, the Drafts had provided that the issue of new notes must cease as long as their rate is below 95% of their face value. Moreover, to increase the demand for them, when a discount persists over six days, the Finance Minister should instruct all public pay offices to accept only treasury notes in payment for all or particular taxes.

## **3. THE REICH AS AN RE-INSURANCE AGENT OF THE PEOPLE AGAINST INFLATION. A REICH LOAN WITH THE HOARDED STOCKS OF NOTES (PP 55-58)**

As the banks alone, on instructions of their customers, have to pay every day more than 30 million Reich marks in dues, custom duties etc., the tax foundation means an

absolute guaranty for the people against losses in treasury notes and old Reichsbank notes. But there are about 1-2 billion Reich marks hoarded in Reichsbank notes. If these should suddenly be released on the market then - in consequence of the past infringement by the Reichsbank to the real bills doctrine (proper discounting of sound commercial bills) - there would be the threat of inflation. To counter this danger, the Law Drafts provide for advance payments at par on so far not yet determined tax amounts payable in the future, using Reichsbank notes or treasury notes. The note holder would thus obtain interest-bearing tax assets as emergency loans, assets whose gold value would be guaranteed and whose exchange value could be kept at par through free transferability. Thereby, a medium to long term government loan could be achieved of about 2 billion Reich marks and with this the Reich, the German States and the municipalities could repay their short term loans and thereby make available, at the Reichsbank and the other credit institutions, a corresponding amount of credit for commercial bill discounts.

In the interests of honest the second Draft provides that the Reich, the German States and municipalities also accept in payment for tax assets the securities of their own loans. Moreover, these advance tax deposits are to be protected against subsequent devaluations, prolongations and conversions.

#### **4. THE RESTORATION OF THE LONG TERM CREDIT OF THE REICH (PP 59-65)**

The quotation of public German loans at, in the average, no more than 50%, undermines the credit of the Reich and makes the placement of new loans impossible. This in spite of the fact that in Germany the long term public debt is, compared with France and especially with England (130 billion Reich marks) rather small and amounts for the Reich, the German States and municipalities together, only to about 23 billion Reich marks. The effective interest rate is enormously high as, at present there is no internal demand for these securities. Thus the market rate of these loans is to be returned to par. Otherwise, this floating debt cannot be consolidated into non-recallable loans. The second draft aims at this through the following measures:

- a) Making government loan certificates, interest coupons and treasury bonds acceptable at all tax offices, even 30 days before they fall due. This does also save means of payment, enlarges the non-cash transactions and protects against deflation.
- b) In payment of inheritance tax, which amounts every year to about 80 million Reich marks, these certificates are to be accepted at face value long before they fall due. This would considerably increase the demand for them at the stock exchanges and would, therefore, raise their price.

The rise in the price of securities due to these measures would, in the interest of small savers and the insured, improve the situation of the savings banks and insurance companies. These institutions suffered market rate losses to the tune of several billion Reich marks.

Moreover, these measures, through reduction of the excessively high interest level, would reduce the causes of unemployment - without any public employment program. Through private agreements, such a clearing of due loans could also be applied to industry.

#### **5. CLEARING BANKS ISSUING CHEQUE MONEY (PP. 66-90)**

The principle of clearing must not only be applied in government credit and in the sphere of loan transactions but also in the settlement of the whole turnover of goods. For decades this has happened more and more through current accounts and -cheques. But no turnover of goods could take place without requiring at some spot money for wage payments. Here the non-cash system of payments has failed so far. In this sphere, therefore, the means of payment to the Reichsbank were so far still indispensable. This defect of the non-cash transactions would be corrected by Draft No. 3, through the establishment of clearing banks. These should be founded wherever there is an interest in them and they should be confined to clearing transactions only and the issue of means of payment for clearing only.

The typified clearing cheque of these banks would grant - by means of the bank's acceptance prescribed by the Draft - a direct claim of the bearer against the bank. They should be freely transferrable and should, apart from the signatures and dates of issue, be completely printed. They should only be issued in denominations of 1,2,5,10 and 50 Reich marks and could then be spent by the bearer like money - but, selfevidently, they would be without compulsory acceptance (legal tender). The clearing banks would be authorized to issue clearing cheques only against sound

commercial bills and other sound claims arising out of sales of goods and services. None of these bills should run for longer than 4 months and their debtor must be known as solvent.

Competition between the different clearing houses would then assure that all the additional turnover credit would be supplied which is required by the economy in order to allow it to continue working, producing, transporting and selling.

The Draft has completely satisfying guaranties to prevent an abuse of these cheques.

THROUGH THE ESTABLISHMENT OF THESE CLEARING BANKS THE MONEY MONOPOLY OF THE REICHSBANK WOULD BE BROKEN AND THEREBY THE INSTRUMENT OF THE INTERNATIONAL FINANCE CAPITAL WOULD BE LAMED.

Medium and small industry would become most important. The breeding of trusts, managerial abuses ("das Tantiemenunwesen") as well as corruption and subsidization would be made impossible.

The note issue monopoly of the Reichsbank had so far - with the help of its legal tender notes, kept up the interest rate much too high and prevented, thereby, the bringing together of the unemployed masses with the masses of consumer goods which are ready for sale or could be produced.

The so-called interest slavery could not be broken by lowering the interest rate by a few percent by means of emergency decrees but only through assuring, by means of a system of clearing banks, that each sound claim, arising out of deliveries, can at any time be transformed into means of payment. Thereby, the monopoly of the Reichsbank would be broken, a monopoly consisting in its exclusive privilege to transform bills of exchange into banknotes.

The arbitrariness in the granting of credits would also disappear as a consequence and competition would soon reduce the interest rate to the costs.

(Note by JZ: Like many of his predecessors, e.g. Proudhon, Tucker, Mackay, the mutualist school of free banking advocates and K.H.Z. Solneman, Dr. Best does not distinguish here between short term credit (for which the interest rate could indeed be greatly reduced by a competitive supply of turnover credit) and the interest rate for medium and long term capital investments - which requires for its reduction, among other things, a greater supply of such capital. This cannot be achieved on the commercial bill principle alone. Freedom for these short term credits could only indirectly promote the medium and long term capital market by indirectly increasing the supply of such capital. This will follow when competition in turnover credits will lead to the utilization of all resources, especially labor and so far underused machine capital, because all goods and services needed can under the new conditions easily be sold - or rather sell themselves to a considerable degree. This increased turnover will allow more capital formation and only this will finally lead to some reductions in the rates for long term capital - never merely towards administration costs plus risk charges. Lack of this particular insight has done the cause of free banking incalculable harm.)

The clearing banks are mainly designed for medium sized towns and cities and for the countryside. Their clearing cheques are not redeemable in metal or in the national paper currency but only through purchases in the stores associated with the bank as well, in the fashion described below.

The clearing banks are intended not as NEW banks but essentially as cooperatives and share companies whose partners are the local banks. The local banks would thus become independent of the restrictive policies of the Reichsbank and of its high discount rates.

As inflation is possible only under compulsory acceptance (legal tender) and deflation only under the note issue monopoly, the currency could be steered between the Scylla of inflation and the Charybdis of deflation only under the system of clearing banks. Already twice before in history was the clearing system used as the classical means in the fight against deflation. Once, in England, when in 1844 Peel's Bank Act brought a long lasting deflation, and secondly, in Germany, when Reichsbank President Koch recommended the Cheque Act of 11/3/1908 in order to loosen the note issue monopoly. As clearing cheques are neither banknotes nor subject to legal tender (compulsory acceptance), they would, like the Reich treasury notes, not at all infringe paragraphs 2 and 3 of the Bank Act of 30/8/1924. While, indeed, its par. 39 prohibits the "unauthorized" issue of other bearer bonds, these issues could easily be "authorized" by a special law (the Drafts).

Any difficulties arising out of international ties of the Bank Act could be abolished through negotiations with the B.I.Z. in Basel.

Apart from the abovementioned use of the cheques for purchases, they could also be used for credits on current accounts with the issuing bank. Such an account could only be disposed of by transfers and clearing cheques - which would make the system completely safe.

Payments by clearing cheques could take place, without any friction, only within the circle of customers of the clearing bank. As a retailer would, mostly, have received credit from the clearing bank - which he can repay only in clearing cheques - he could reduce his debt by acceptance of the cheques and the resulting demand for the cheques would keep them at par.

Their exchange rate at par with their nominal value would also be assured by the short term run of the credit granted by the clearing bank, a turnover credit granted usually by discounting commercial bills. Thus all circulating clearing cheques would within a few weeks after their issue, be withdrawn again from circulation (reflux). Naturally, the clearing banks would have to accept their own clearing cheques at par. Par. 7 of Draft 3 includes a guaranty of the reflux and precludes abuses by stating that the clearing banks may issue preprinted forms for clearing cheques and purchase or make loans on bills and other claims only when within the preceding month one fifth of all those debts have been repaid which were outstanding at the beginning of this month.

Difficulties would no more arise out of the variety of means of payment than arise now out of the fact that, aside the Reichsbank notes there circulate silver coins, Rentenbank notes and the notes of 4 private note issuing banks, all of which are not subject to legal tender. Moreover, there is only the choice between a uniform monetary system with a destructive formalism and decentralization with a healthy economy. The system of clearing banks should be interconnected by centers for non-cash-payments. This is of especial importance for agricultural credit. In this sphere the centralized banking system was so far especially disastrous because agricultural bills were usually not acceptable to the Reichsbank - while the "Preussenkasse" would hardly be of any significance any longer for turnover credits. The agricultural problem could not be solved in the long run through tariffs and subsidies. Agriculture would not have to beg for purchasing power - because it would have this power in its own products. If agriculture were permitted to open up - aside the blocked channels of the Reichsbank - an avenue for clearing, then the problem of the exchange between agricultural and industrial products would be solved. Produce and goods would in this way create their own means of payment and the goods circulation would be freed of the fetters of the money monopoly. Writers of social significance have seen here the starting point for the solution of the social problem.

## **6. VALUE PRESERVING ACCOUNTING AND NON-INFLATABLE CURRENCY, ACCORDING TO THE PRUSSIAN-GERMAN SYSTEM (PP 90-104)**

The whole system of clearing - in the public and the private economy - stands and falls with the stability of the value standard used, the "Reichsmark". The here explained double meaning of this concept in the currency legislation, has created a situation where there are only political obstacles for an inflation of the Reichsmark but no longer any legal ones. Thereby confidence in a steady economic development and the inviolability of contracts has been undermined. The concept of the Reich mark should therefore be legally guaranteed. This would be done through the following clauses in Draft 4 :

- a) Par. 1 provides that in all payment and credit transactions, regardless of the exchange value of means of payment, all reckoning is to take place in stable units.
- b) Another paragraph states that gold is the value standard and the unit of value reckoning is the Reich mark and that this is defined as equal to 1/2790 kg. of fine gold.
- c) Par. 4 states that nobody is obliged to accept banknotes at par in payments which are legally to be made in gold.

These provisions would achieve that in contracts and other debt relationships all reckoning would be based on the new stable unit and that offered means of payment would be accepted at face value as long as on the stock exchange they are quoted at par. Otherwise, they would be accepted only at their market rate. (Note by JZ: If accepted at all and not refused altogether.)

No difficulties would arise. The German Civil Law Code has also taken the position, that there is no compulsory acceptance for paper means of payment. This ruling would be welcomed by all honest people but, naturally, fought by all who want to free themselves of their debts by another inflation and who would like to see even all gold clauses repealed as soon as inflation takes place.

While under the present "inflationary system" the value of the means of exchange is invariable and the unit and the price system variable, under the proposed system, the price system would be invariable - from the side of gold - and only the means of payment would be variable - in accordance with the Prussian-German system. In 1923, too, there was value-preserving reckoning and accounting, regardless of the fluctuating value of the means of exchange. The then arising difficulties would be avoided when, with the proposed guaranties, the means of exchange would be as well kept at par as this was done before the war with the notes of the Reichsbank which had, likewise, no legal tender before 1910. The author then gives detailed explanations on how to determine the gold price and shows that the quotation of gold at the exchanges is in reality that of the various paper means of exchange. He also points out that the publication of the price of means of exchange is necessary to the classical Prussian-German financial system. Finally, the author explains that gold must be retained as VALUE STANDARD because it is subject to the least price fluctuations. BUT AS MEANS OF PAYMENT AS WELL AS COVER for the other means of payment, he wants to exclude it. The cover is to be assured, according to him, exclusively by the reflux. In order to avoid repetition, I will give the reasons for this only in my review of the proposals.

#### **7. THE RECOVERY OF THE REICHSBANK AND THE DEPOSIT SYSTEM (PP 105-115)**

Deposits, in 1931, had achieved the unhealthy height of double the pre-war volume. This would be changed by the clearing banks which would reduce the interest for good credits to 2 to 3%. Thus they could not pay any or only low interest for deposits. Thus many depositors would transfer their non-interest bearing deposits into securities and thus make available to the economy the required capital directly, long term and not withdrawable.

At the savings banks, also, the extraordinary condition should be abolished that the debits are daily reclaimable while the assets are invested on long terms.

Through continuing breaches of the Bank Act, the Reichsbank has become a very sick institution. Its stock of bills of exchange consists, contrary to the law, for a full two thirds out of illiquid financial bills of the public purse and of industrial enterprises which are in trouble. Thus the Reichsbank, on the one side, has become unable to fulfill its function to provide turnover credit and, on the other side, its notes have no longer the required reflux. Its notes are kept at par only by means of tax foundation and legal tender and do thus continuously threaten the currency unit. To preserve the Reichsbank for the economy, it is proposed to divide the Reichsbank business - as happened after the inflation - into old and new business. The Reichsbank would have to cease immediately the issue of Reichsbank notes of the old type and would have to issue new ones, clearly distinguishable, which are strictly subject to the current Bank Act and thus issued exclusively against good commercial bills maturing within three months. The reflux and thus the full safety of the new notes should further, similar as with the clearing banks, be guaranteed by the clause that the Reichsbank may issue further notes only when during the previous calendar month a quarter of the loans outstanding at the beginning of this month have been repaid. This is to apply only to credits granted after the new Draft Law has come into force. Those men among the experts who are dependent, would, naturally, fight this ruling but the principle of honesty and a guaranty against inflation could only be realized in this way.

Furthermore, and in accordance with the Bank Act of 1875, the control of the Reichsbank through the Auditor General should be restored.

While the new notes of the Reichsbank would keep at par, even without legal tender and tax foundation, by means of the reflux, and whilst they could, therefore, be used for deposits on Reichsbank current accounts, the old notes should not be thus accepted - in order to prevent their exchange into the new notes. But the value of the old notes should be preserved by giving them the tax foundation for a transition period. After this period, the value of the old notes would consist only in their usefulness to repay the old Reichsbank loans to the Reichsbank at par. All old and new notes returned to the Reichsbank should be destroyed, in accordance with the English system.

The first 3 Law Drafts would also have their effects on the Reichsbank. The issue of treasury notes would relieve it of about one billion in illiquid bills of the treasury and would free the sphere of credit for the economy.

The lowering of the note circulation would improve the cover ratio.

The establishment of the system of clearing banks would destroy the Reich bank's monopoly on the market for means of payment and would free it to adapt its interest rates to the market situation.

If, as a consequence, the interest rate for 1st. mortgages would be reduced to 4 or

5%, then a thorough recovery of agriculture and industry would be initiated.

Upon the considerations above given in extracts, the FOUR LAW DRAFTS are based TO FIGHT DEFLATION, PREVENT INFLATION AND LOWER INTEREST RATES. They were worked out in collaboration with Gustav Ramin, Ulrich von Beckerath, Hans Meis, Walter Unger and Walter Zander.

(NOTE by JZ: The sequence of the 4 drafts has later been changed. I quoted above, in the draft, the new version or sequence. Dr. Best, below, lists them in the old order, the sequence hardly matters but this note may help avoid confusion.)

The first Draft, on treasury notes, regulates, in essence, the authority to issue, the denominations, the text, the determination and publication of their exchange rate, the publication of statements, their compulsory acceptance for public pay offices only - as set out in detail - as well as their temporary nature as exclusive means for paying taxes.

The second Draft, on facilitating tax payments through the transfer of due bonds and accounts, makes provisions, in accordance with the previous explanations, regulates, how taxes and tariffs can be paid through the delivery of securities and the assignment of claims owned by the taxpayer, as well as with interest coupons, all already 30 days before they fall due. This Draft then settles the establishment of tax assets, interest payment on them, inheritability and transferability of such assets, favored acceptance of not yet due tax payments and debt titles in payment of death duties, as well as the protection of tax assets against conversion and consolidation of the surrendered securities.

The third Draft, on clearing banks, contains, in accordance with the aforesaid, the rules on clearing banks, on their duties and rights and control, as well as on the requirement' of clearing cheques and their protection.

The fourth Draft, on value preserving reckoning and the relief of the Reichsbank, puts into legal form all details given above. It should only be mentioned that all debt relationships existing at the moment the Draft becomes law, are to be considered as value-guaranteed (par. 9), that market rate deviations of means of payment in circulation, amounting to less than 1% are, in case of doubt, to be ignored (par. 6) and that creditors may refuse the acceptance of payments in cases where the determination or publication of the exchange rate of means of payment or the allotment of gold or foreign exchange has been restricted for more than 6 days - until these abuses have been ended (par. 7).

The exclusion of gold as means of payment, mentioned in the explanation to these drafts, finds no expression in the Drafts. On the contrary, for reasons to be discussed later, par. 3 states that gold coins of the Reich are the only means of payment which has to be accepted without limits in general circulation and at its face value.

(Note by JZ: The above is the summary by Dr. Best of Prof. Dr. Rittershausen's book on the Four Law Drafts, titled "The Other System". The following is Dr. Best's review of the Four Law Drafts, in the same pamphlet. Regarding the last paragraph of the above, I would like to suggest that Dr. Best has not sufficiently read the second part of the par. 3 he quotes, which does, indeed, partly exclude gold as means of payment, namely as a means of payment which a debtor HAS to offer or a creditor CAN DEMAND. This is a very important distinction which is all too often overlooked. Only in the latter two legal positions have gold coins, as means of payment ever created any difficulties. The right to pay in gold, whenever one was sufficiently supplied with it, rarely lead to any difficulties and few creditors would refuse such an offer, if legally allowed to accept it. In some instances the demand that payment be in gold has been compared to the torture of a deaf and dumb man in order to extract a confession from him. This distinction is so important that a whole book could and should be written about it. The potential harm done by this legal position in times of a money shortage is as great when the obligation and demand extend not to gold or silver coins but to any other exclusive currency instead, e.g. to the present state paper money. The wrong underlying premise is always that the State can and does supply every "legitimate" requirement for cash means of payment, regardless of the experiences we had with this.)

## REMARKS

In the above I have shown the main thoughts of the drafts. But as my exposition had to confine itself to a small fraction of the 135 pp book, the study of the book itself (price 1,30 RM) is to be recommended, especially to those not familiar with the relevant economic and legal questions.

The drafts themselves, with an explanation by Dr. Walter Zander, Berlin, appeared also separately and are available through the League of Savers of the German Reich..... (old address left out. JZ)

I welcome these Drafts because I believe that they are suitable to counteract the collapse of the economy. They are juridically carefully drafted and logically established and strive to achieve a future of HONEST LEGISLATION and a RETURN TO TRUST AND GOOD FAITH in transactions.

I agree with what the author of the book has to say on the DOUBLE MEANING in our present CURRENCY LEGISLATION.

I also concur that, according to the unanimous opinion of the science of finance, INFLATION IS NOT POSSIBLE WITHOUT LEGAL TENDER. This is very clearly expressed in a Royal Prussian regulation signed by Baron von STEIN, on October 23rd. 1807. There the acceptance of the treasury notes issued is made dependent on the FREE WILL OF THE CREDITORS and this is justified by stating, literally:

"It could not remain unknown to us that this paper money would thereby lose still more in exchange against Silver coins than happened already before due to the restricted redemption - **BUT WE SAW AND STILL SEE THIS AS A MINOR EVIL COMPARED WITH THE INCENTIVE TO DISHONESTY ARISING OUT OF THE POSSIBILITY TO FORCE UPON A CREDITOR PAYMENT IN PAPER MONEY, WITH AN ENFORCED PAR VALUE, WHICH IS AT A DISCOUNT, AGAINST COIN, DUE TO ITS RECEPTION BEING INTERRUPTED.**"

On the some honorable foundation stood an IMPERIAL AUSTRIAN LAW of the first of June, 1816. In agreement with this, par. 2 of the BANK ACT of 14/3/1875 (RGBl. S.177) determined that there is no OBLIGATION to accept banknotes legally payable in gold. Only article 3 of the law to change the Bank Act of 1/6/1909 (RGBl. S.515) commanded "The notes of the Reichsbank are legal tender" and thereby FORCED everyone to accept Reichsbank notes at their NOMINAL VALUE, no matter how much their MARKET VALUE had fallen under their nominal value. Obstinate, the then Imperial Minister of Finance and the Chancellor held on to this ABSURDITY,

### **THUS THEY HAVE RUINED THE GERMAN SAVER.**

(Note by JZ: Ulrich von Beckerath pointed out to me that during the Bank Enquiry of 1908, which led to the legal tender act, it was openly admitted that legal tender was to be introduced with regard to the war already foreseen then. It could, according to doctrinal opinion, not be financed without inflation and, indeed, at least this war was unpopular enough to make this rather likely. In the few cases when the warlike actions of a government are popular enough, then the population is also willing to face the real costs directly. They have, anyhow, with inflation or without, to come out of present earnings and wealth. If I had the text of the Bank Enquiry, which followed the financial crisis of 1907, then I would quote here the relevant passage.)

While honest people, without a doubt, will welcome the repeal of compulsory acceptance (legal tender), it will naturally, be ENERGETICALLY RESISTED BY THOSE DESIRING ANOTHER DEBT REPUDIATION THROUGH A NEW INFLATION. Reaction to the proposals will reveal whether the NEW government is SINCERE with its return to HONESTY and whether it will see to it that in future NOBODY WILL BE CHEATED ANY MORE due to a lowering of the value of banknotes.

I do also agree with the author that a deflation, i.e. a shortening of credit and a continuing price fall, is a phenomenon accompanying CENTRALIZATION OF CREDIT and the associated NOTE ISSUE MONOPOLY.

As the abolition of the credit monopoly will also abolish the INTEREST MONOPOLY and will disturb the LARGE CORPORATIONS AND THEIR MISMANAGEMENT (literally: "Trust und Tantiemenwirtschaft") and the ARBITRARY RULE OF THE DIRECTORS OF THE LARGE BANKS, the Drafts will experience a strong resistance from these quarters, also.

I do, likewise, welcome the way in which the Drafts

- a) will satisfy (at a time when tax increases and loans are impossible ) the short term financial requirements of the treasury, through the issue of treasury notes &
- b) will create a steady DEMAND for government securities by CLEARING them AGAINST TAX DEBTS, thus RAISING the price of these securities and preparing the ground for new issues.

I would like to point out that the proposed treasury notes have also a precedent in the Act on Treasury Notes of 30/4/1874 (RGBl. S. 40) which in its turn was based especially on Prussian and Austrian previous legislation.

The relationship of the here reviewed Drafts to the articles 1 and 2 of the Draft of Proposals to PROTECT SAVERS, which I published recently in the last D.V.R., is the following:

In the introduction to article 2 of my draft, I explained that I do not make proposals for a currency reform because the World Economic Conference would deal with this. Thus the paragraphs 1 & 2 proposed by me should only provide relief until the reform occurred. The proposals of Dr. Rittershausen and his collaborators are such a reform which I would heartily welcome for Germany. Their PROTECTION OF THE VALUE OF ALL CLAIMS is in fundamental agreement with sec. 1 of art. 1 of my draft. (I will return to art. 1, sec. 2 and art. 2 of my draft later and art. 3-8 of my draft remain untouched by the Four Drafts explained here.) The fact that I agree, fundamentally, and in all essential details, does not exclude the following remarks:

The study of the book has left me in doubt whether Dr. RITTERSHAUSEN sees in the drafts a universal panacea against unemployment or only expects of them a revival of the economy in the, indeed, very frequent cases where the masses of goods to be exchanged are present on both sides but the existing credit restrictions have so far prevented the required turnover. Then the proposed system would provide the turnover credit needed for wage payments, new production, dispatch etc. With this qualification I consider the reference in the book convincing which showed that in 1923/4 the provision of the required turnover credit did soon end the stoppage of the economy and made the unemployed disappear from the streets. This case is backed up by an article of Dr. RITTERSHAUSEN on "AUSGLEICHSKASSEN" (Balancing Pay Offices) in No. 19 of "Bankwissenschaft" (Science of Banking) of 5/1/1933, p. 577, in which he showed that WUERTEMBERG and to a similar degree the other German States with private note issuing banks, had the LOWEST UNEMPLOYMENT in Germany. The notes of these banks are NOT LEGAL TENDER but are kept at par as these issuing banks - very different from the Reichsbank - STRICTLY FOLLOWED the principles of banknote issue and thus they remained able to sufficiently finance the turnover credit of the economy in their sphere.

(Note by JZ: These remaining 4 note-issuing banks had a legal limit on their circulation and were completely outlawed in 1935. Moreover, these German States were, naturally, also affected by the crisis in all neighboring States and could, with their limited means, not overcome all these effects. )

By the way, DR. RITTERSHAUSEN states in this article the SAME view on HERPEL-DICKEL's CREATION OF CREDIT OUT OF NOTHING which I have explained in two essays. He shows that their "Ausgleichskassen" (Balancing Pay Offices) are indeed PAY OFFICES TO PREVENT BALANCING and that they would thus HINDER instead of promote the provision of employment.

If we assume, after the above, that it has been proven that the realization of the Drafts would everywhere REVIVE THE ECONOMY where so far the required turnover credit was missing, they remain WITHOUT immediate effect WHEREVER sales are restricted due to the post-inflation CURRENCY REFORM LEGISLATION HAVING TRANSFERRED THE SAVINGS OF MILLIONS TO A MUCH SMALLER CIRCLE OF INFLATION PROFITEERS whose PURCHASING REQUIREMENTS are thus MUCH SMALLER than those of the people expropriated by the inflation. Thus my support for these Drafts does not diminish my FIGHT FOR THE RESTORATION OF RIGHTS. The Four Drafts will be effective only for the FUTURE, while the restoration of CONFIDENCE requires also the abolition of PAST wrongs.

Regarding the treasury notes provided for in the draft, I point out that they have something of an example in the Tax Warrants issued by the government. Apart from other differences, which I will omit, the two differ essentially in the following: The treasury notes are designed as MEANS OF PAYMENT, the Tax Warrants only as CREDIT SECURITIES to obtain Reichsbank notes. Contrary to the tax warrants, there is no maximum amount for the treasury notes to be issued. While the Four Law Drafts provide for safeguards for the par value of the treasury notes, no such provision is made for

the tax warrants. The treasury notes establish a sharp division between the good money of the economy, based on commercial bills, and the paper money of the State. The-TAX-WARRANTS, on the other hand, do not reduce the CENTRALIZATION of the monetary system but, instead, INCREASE it.

Especially important is the financial result for the treasury which sets them apart. The government issues the tax warrants FREE OF CHARGE and thus REDUCES the RECEIPTS of the Reich by 1,500 MILLION Reich marks - without it being certain that the hoped-for benefits from the employment of unemployed will justify THIS ENORMOUS REDUCTION IN INCOME. The issue of treasury notes, on the other hand, brings, compared with the discounting of financial bills at the Reichsbank, savings to the government, in interest payments, amounting every year to between 50 and 100 million Reich marks.

Concerning the treasury notes it would have to be established still whether and how far, through the acceptance obligation of the German States and municipalities, financial balancing would be affected to their disadvantage.

Regarding the legal questions, I agree with Dr. Rittershausen (pp.78/9) that the typified bearer cheques, too, would not offend against the note issue monopoly of the Reichsbank and that the issue of treasury notes is not outlawed by the Bank Act. But I am in doubt whether the unauthorized issue of bearer cheques, outlawed by par. 39 of the Bank Act, could be legalized merely by an internal German law on clearing cheques. But I am without a doubt that par. 3 of the Bank Act of 30/8/1924 is infringed when the Draft of a Law on Stable Value Reckoning repeals, in par. 4, sec. 1, legal tender for banknotes. As this particular Bank Act can be changed -because of international obligations, up to the ratification of the Treaty of Lausanne, only with the agreement of the signatory powers, represented by the B.I.Z. in Basel, or through the international arbitration court referred to by it, and as the achievement of, this consent is all the more doubtful as the abolition of legal tender for banknotes interferes with the note, credit and interest monopoly of high finance, which is exclusively represented in the administration of the B.J.Z., I expect that the realization of the proposals as a whole will encounter considerable difficulties.

(Note by JZ: Only those who see an international financial conspirator under every bed and who believe in the binding power of every immoral legal restriction, would see real difficulties here.)

I do agree with Dr. Rittershausen that a restriction of self-determination of the German people in this respect is, from the national as well as the economic point of view, INTOLERABLE.

A good credit organization, which is the aim of these Drafts, should, moreover, fail all the less because of the selfish interests of high finance because, from the international point of view, it would lead to a calming down of great importance.

I REFER THE NEW MEN, IN POWER OVER THE NATION, TO THE FACT THAT THE CENTRALIZATION OF CREDIT IN THE HANDS OF A NATIONS BANK WITH AN EXCLUSIVE NOTE ISSUE MONOPOLY, IS AN ESSENTIAL PROGRAM POINT OF THE COMMUNIST MANIFESTO WORKED OUT BY MARX AND ENGELS IN 1847/8, IN ORDER TO EXPROPRIATE THE BOURGEOISIE AND TO ESTABLISH THE DICTATORSHIP OF THE PROLETARIAT.

In this context, I would like to suggest a clarification in the contents of the Drafts. The Draft on Reich treasury notes states, in par. 6, that Reich treasury notes have to be accepted neither at their nominal value nor at any other value. When, different from this, the Draft of a Law on Stable Value Reckoning, simply states in par. 4 sec. 1 that there is no obligation to accept banknotes then, what is meant, can only be acceptance at face value. (Compare also par. 7) This appears necessary as there has to be ONE means of payment with which a debtor, even if only at its market rate, can fulfill his obligation. But this should be stated expressly to dispel all doubts.

Such doubts are also left, by sec. 3 of par. 3 of the Draft on Clearing Banks. I assume that creditors would, in these cases also, have to accept banknotes, treasury notes and coins only in the framework of the otherwise applying principles.

(Note by JZ: GOLD has indeed unlimited compulsory ACCEPTANCE in the settlement of debts, according to par. 3 of Draft I. Moreover, in practice, well managed paper money was rarely ever refused. This was e.g. revealed in the German Bank Enquiry of 1908. This Enquiry was able to confirm only a single case which happened in Munich in 1876. See: Protokolle der deutschen Bank Enquete von 1908, vol. I, p.192 - here referred to from Peace Plans No. 9, p. 54. Please compare also point 33 of the Human Rights draft, which is reproduced in the introduction to this fiche issue of the Four

Drafts. In this review Dr. Best seems to deal only with the original version of the Drafts, not with the amendments to e.g. par.3 of Draft 1 which Dr. Rittershausen added in the book supposedly reviewed by Dr. Best.)

Dr. Rittershausen explains that his Four Law Drafts should also protect us, contrary to the present legal position, from ADMINISTRATIVE MEASURES. But with regard to the fundamental importance of the currency, even LEGISLATIVE CHANGES are to be suspected. They can be made all too easily, especially at a time when the constitutional nature of many Emergency Acts is very much in doubt.

In par. 1, sec. 2 of my draft, I have, therefore, proposed to protect the clauses of sec. 1 not only against Invalidation through emergency decrees but to make their alteration possible only through a constitutional change requiring a large majority. Because of the power and influence of those circles which, in the interest of a FRAUDULENT DEBT REPUDIATION CONSTANTLY STRIVE FOR AN INFLATIONARY CURRENCY DETERIORATION, such proposals are also recommendable for the Drafts.

Although in every other than a circulating gold coin currency, the security of a currency depends, essentially, on the realization of measures considered necessary by the legislators for the protection of the note circulation and on their conscientious realization by the institutions authorized to apply them, nevertheless, the Penal Code of the Reich, in par. 146 and the following, provides penalties only with the aim to protect the population against the manufacture of forged or the alteration of genuine money tokens.

Thus LEGISLATION has provided NO PROTECTION at all in cases where through the NEGLECT OR PRESCRIBED PRECAUTIONARY MEASURES (like cover, discount rate, permitted business etc.), those means of exchange having no inherent value, become more or less VALUELESS SLIPS OF PAPER. This in spite of the fact that damages through forgeries are RELATIVELY SMALL while the UNDERMINING OF THE CURRENCY leads to damages measured in billions. I have, therefore, in art. 2 of my draft, provided for corresponding penalties and for restitution and offer for consideration whether the Four Law Drafts should not be supplemented in a similar way.

The Draft of a Law on STABLE VALUE RECKONING etc., states in par. 3:

"Reich gold coins shall be the sole means of settlement that must be accepted in economic dealings to an unlimited extent and at their face value."

But on pp. 102-104 of the book the insistence is, indeed, upon retaining gold as a standard of value, while excluding it as a means of payment and as a cover for banknotes and Reich treasury notes. As means of payment, according to the Drafts, should be considered only the various forms of banknotes, Reich treasury notes, bank transfers and clearing actions - all WITHOUT COMPULSORY ACCEPTANCE. As the texts do not preclude a gold circulation currency and as such a currency is out of the question immediately, as there is not a sufficient gold stock in Germany, I would abstain from further remarks in this direction. But to clarify my fundamental position, I state here that I am a convinced follower of a gold circulating currency.

(Note by JZ: Dr. Best does, unfortunately, not distinguish between:

1. means of payment one may rightfully offer, like gold coins (Draft I, par. 3) and few people are likely to refuse these, and
2. means of payment one may legally demand even if the debtor has none of them. On these see the second section of Draft I, par. 3 and also par. 3a which Dr. Rittershausen added.

I believe that the fifth word in this par. 3a: "such", indicates a translation mistake. I have only the English version and am still seeking the Germany original. If "such" is replaced by "clearing" then this passage makes sense.)

Apart from the fact that Germany was rich and honest under it, it appears to me especially desirable because it protects creditors against losses from the side of the currency and he possesses in the gold received a value which is safeguarded against subsequent depreciations under ordinary circumstances. This is quite contrary to the gold core and all other currencies, in which the creditor does not get into his hands a real and inherent value but merely, by means of a money token, which is in itself valueless, a legal claim against the cover consisting of gold, real estate or any other currency base, and which is, therefore, subject to fraudulent manipulations and dependent on exact adherence to the prescribed safety measures.

(Note by JZ: The authors of the Four Law drafts were very far from being opposed to the circulation of honest gold coins, even of private ones,

competitively minted. They only opposed gold coins as an EXCLUSIVE exchange medium, as one demandable by a creditor, as one which a debtor MUST supply. They favored its legal tender in payment to creditors when the debtor was sufficiently supplied with them. But sound gold coins hardly need such a legal tender power. They also opposed it as an exclusive cover for banknotes and clearing certificates etc. Convertibility of notes etc. in to metallic gold they wanted to refer to the free gold markets, which, between them, hold the greatest gold treasure chests - or quantities of gold coins and gold bullion. J.Z., 28.8.05.)

Moreover, I believe that monetary exchanges are considerably facilitated when, as under the Bank Act of 1875, which was valid up to 1910, at least ONE means of payment) has WITHOUT A DOUBT legal tender.

The advantages would not be too highly paid for through a small dependence on the owners of gold mines - which was, according to my knowledge, not considered as oppressive before the war. As for the rest, I refer to an article that I have written, titled "Gold- oder Bodenwährung" (Gold or Real Estate Currency) and published on 22/8/1931 in "Deutsches Volksrecht" (German People's Rights). I add that the reflux as guaranty for notes does not preclude the increased security provided by a gold redemption - as provided in the various Reichsbank Acts. Moreover, Dr. Rittershausen, with whom I discussed the question, wrote to me that he shares my opinion on a gold circulation currency.

(Note by JZ: Here, again. Dr. Best did not discuss the distinct provision of the Four Law Drafts, in Prof. Dr. Rittershausen's version, which gave GOLD LEGAL TENDER WHEN OFFERED BY A DEBTOR BUT GRANTED NO CREDITOR THE RIGHT TO DEMAND IT IN PAYMENT. (Draft I par.3.) He merely stated his own preference, ignoring this ingenious proposal. Neither of the co-authors of the Drafts was, to my knowledge opposed to a gold coin circulation. They only opposed such a currency as an exclusive one. They welcomed honest gold coins issued by a government and also private gold coinage. They believed that under monetary freedom at least some gold coins would freely circulate, together with various paper money tokens, the latter being so carefully issued and controlled that they would remain at par with the gold coins. The circulation of at least some gold coins would be an asset to such a system. People could then test in daily exchanges that their paper money is still at par. The possibility of the discount is essential to stop and prevent abuses.

Lastly, only free competition between various systems for the issue of notes will settle the question whether there should be in use either an additional or an exclusive security in form of a 100% gold convertibility by the issuer, or not. In my eyes it would waste the capital represented by the gold reserve and thus make such note issuers less competitive. (Such issuers are certainly inclined to outlaw all competition. I would not but would rather rely on the right to refuse acceptance.)

I would, with Ulrich von Beckerath, rather see any gold redemption desired referred from the issuer to the free gold market. On the free gold market any paper means of exchange which reckons in gold and is honestly administered, should, usually, be dealt with at par with their nominal gold value and this in spite of the fact that the total of such money tokens is likely to exceed by far the total gold stock of the world.

Anything as good as gold is good enough for me and for most other people - and this requires only an investment in paper, ink and some thought, no treasure or capital at all. It is wrong to assume that only 100% convertibility into gold - or another rare metal - can achieve this for any paper money. There are many historical instances which should, perhaps, be listed somewhere, perhaps in my future handbook on monetary freedom. So far there is agreement, among libertarians only, in the condemnation of the present types of paper money. 100% covered by rare metals and redeemable or convertible banknotes would, indeed, be better, as far as their value standard is concerned, PROVIDED ONLY that they are not introduced and maintained as another EXCLUSIVE currency or as an exclusive means of exchange. As such they are a wrongful and dangerous concept and practice. J.Z., 28.8.05.)

At the opening of the new Reichsbank building in Frankfurt/M, Reichsbank President Dr. Luther spoke a short time ago on interest policy and currency. He stated that IT WOULD BE FUNDAMENTALLY WRONG TO INTERFERE ARTIFICIALLY WITH THE RISE AND FALL OF INTEREST RATES AND WITH INTEREST RATE AGREEMENTS BETWEEN CREDITORS AND DEBTORS, JUST TO REDUCE THE INTEREST RATE. But it would be reasonable to strive for an organic and economically justified reduction of the interest rate level.

FOR THE ESTABLISHMENT AND PRESERVATION OF CHEAP INTEREST RATES IN GERMANY, THE RULE OF

LAW AND CAPITAL FORMATION ARE THE MOST IMPORTANT PRECONDITIONS and the INDEPENDENCE OF THE CURRENCY and of its ADMINISTRATION from POLITICAL decisions must be assured. In all these respects I agree with Dr. Luther, with all the less reservation as I have held the same principles for many years. MUCH HARM WOULD HAVE BEEN PREVENTED IF DR. LUTHER WOULD HAVE TAKEN HIS PRESENT STAND ALREADY 10 YEARS EARLIER. It is also unfortunate that the policy of the emergency decrees of the government has been so little influenced by DR. LUTHER'S present insights. DR. LUTHER is furthermore right when stating in Frankfurt/M that in times of severe economic crises thousands of currency plans are developed which disappear again with the end of the crisis because they ignored the principles of a sound currency system. Alas, DR. LUTHER did not admit that it was the Reichsbank itself which has ENDANGERED THE CURRENCY by severely offending against the rules on note cover, discount rate and the discounting of financial bills - as I have shown in my essay "Diskontsenkung und Wahrung" (Discount Rate Reduction and Currency), in "Deutsches Volksrecht" (German People's Rights), of 29/10/1932.

The Four Law Drafts submitted by Prof. Dr. Rittershausen fulfill all requirements of an honest currency.  
The ABOLITION OF LEGAL TENDER would make inflation impossible.  
The abolition of CENTRALIZATION would make deflation impossible.  
The issue of REICH TREASURY NOTES would relieve the Reichsbank from the burden of financing the treasury and thereby, and through the CLEARING BANK, the turnover credit required by the economy would be provided.

WITH THIS STATEMENT DR. BEST'S COMMENTS END. THE REST OF THE FICHE IS FILLED WITH THE ORIGINAL GERMAN TEXTS - for the benefit of those who take these proposals serious enough. John Zube, 8/2/1979. If you would like to discuss these proposals write to me: 35 Oxley St. or P.O.Box 52, Berrima, NSW 2577, jzube@acenet.com.au.

## Four Law Drafts in German

### Vier Gesetzentwürfe zur Bekämpfung der Deflation, Verhinderung der Inflation und Senkung des Zinses nebst Begründung.

- I. Entwurf eines Gesetzes über wertbeständige Rechnung und Entlastung der Reichsbank.
- II. Entwurf eines Gesetzes über Reichskassenscheine.
- III. Entwurf eines Gesetzes über Erleichterung der Steuerzahlung durch Schuldbuchforderungen.
- IV. Entwurf eines Gesetzes über Verrechnungsbanken
- V. Begründung.

See

[http://www.reinventingmoney.com/beckerrath/021Vier%20Gesetzentwuerfe\\_390-420.htm](http://www.reinventingmoney.com/beckerrath/021Vier%20Gesetzentwuerfe_390-420.htm)