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# VIEW FROM AN ALP IV

## The Dream World of Inflating and the Accountant's Nightmare

by

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The euphoria characteristic of most individuals during the early and middle stages of prolonged inflating is beginning to be superseded by some understanding, on the part of a small minority thus far, that the currencies of Western civilization rapidly are depreciating. Many people are awakening to the reality that a dollar no longer is a dollar as they once knew it but is a mere piece of paper having no definite real exchange value. The same is true of the other principal currencies.

Citizens of the United States have lost more than $1,000,000,000,000 (a trillion dollars) in the buying power of their savings and life insurance since the beginning of World War II. Citizens of most other nations have lost less in total amount but even more in proportion to their relatively smaller per capita savings and life insurance.

Pensions throughout all of Western civilization have become like a mirage in the desert. They dwindle and lose their capacity to support life as the working individual nears his retirement years.

Accountants, who might have been expected to see the departure from financial reality earliest, only recently have become concerned. In both the United States and Great Britain the professional accountants societies are striving to devise some means of keeping fiscal records that will provide an adequate measure of what really happens over various periods of time. The fact that much accounting has become meaningless fiction finally is being recognized.

However, while the professionals try to devise formulas for converting dreams into reality, the situation becomes worse, day by day. Floating exchange rates have resulted in greater and more abrupt fluctuations among the various currencies in relation to each other; and competitive devaluations have brought the depreciation of most leading currencies to the two-digit stage with fluctuating rates of decline in excess of 10 percent annually and a disturbing tendency to increase the rate.

The accounting for any corporation, even within one nation, if it uses substantial capital to be depreciated over long periods or has long-term obligations to pension funds etc., has become widely separated from reality. As for the great multinational corporations including major world banks, insurance companies, airlines, and others, their financial records have become an accountant's nightmare. A profit in one currency may or may not be a profit in another currency that must be used to some extent. By the time managerial decisions on price changes etc. can be made, fluctuating foreign exchange rates have made a mockery of the accounting basis for the decision.

Now it becomes increasingly clear that rotting paper currencies are not practicable financial and accounting media for a modern industrial society. Unfortunately, also more clear every day is the fact

that the world's politicians and central bankers will do little or nothing to remedy the situation. In order to understand how the present state of affairs has developed, a brief historical digression is needed.

### *The Facts, as Developed to Date*

In the last part of the 1800's and until World War I (1914), all of the leading industrial nations as well as many others used a common international monetary base. All of their currency units were gold, although some used different weights of gold than others did, and various names were used for the different unit weights, such as "dollar," "pound," "franc," "mark," etc.

Because each currency unit was gold, each was readily exchangeable into any other, based on the relative gold contents. In practical effect, troy ounces of gold, or in the metric system grams of gold, were the international unit for all currencies of leading nations.

This situation represented the peak of development for Western civilization in monetary matters. It facilitated commerce and made possible long-term accounting records that were meaningful rather than fictitious. Not only commerce between nations but also the great increase of useful capital was encouraged by the growth of savings institutions, life insurance, and pension funds.

During World War I, the countries concerned inflated by printing paper money and monetizing Government debt not limited by any relation to the gold currency unit. The results were catastrophic:

a. In Germany, the money became worthless in 1923, with complete loss of all savings, life insurance, pensions, and an economic breakdown with serious depression. A new gold monetary unit was adopted. In some other countries the experience was similar.

b. In France, the loss of buying power of the currency was not so extreme as in Germany, but the French franc, by the time of DeGaulle, would buy less than one two-hundredth of what it bought in 1914.

c. In England, the pound sterling lost much of its buying power, but an effort was made in 1925 to restore the pre-war gold currency unit.

d. In the United States, the consequences were less serious, although a noticeable loss in the buying power of the dollar occurred.

Between World War I and World War II, an effort was made to restore the pre-World War I situation. However, the procedure adopted facilitated inflating again as some currencies, especially the dollar and the pound, were widely used as reserves in other countries as though they were gold. The inflationary boom of the 1920's was the immediate result, and the Great Depression of the 1930's was the aftermath.

During World War II, the inflating procedures used during World War I were again applied, with similarly disastrous consequences for many nations.

After World War II, the leading nations joined in establishing a new international monetary system based on gold. However, once again they repeated the mistake of the 1920's by providing that the currencies of some nations could be held instead of gold as the reserves of other nations. In practical effect, this meant counting gold twice, once where it actually was held and again in some other countries whose central banks held claims on dollars, pounds, etc.

In the decades after World War I, the basic principle of sound commercial banking was so far departed from that it was largely forgotten. This principle is that all money in circulation should represent either things being offered in a nation's market or gold held in the banks but also offered in the markets because anyone who had paper currency or a checking account (demand deposit) could claim gold from a bank just as he could claim things in the markets with his money. When there is sound commercial banking, the currency plus checking accounts are, in practical effect, simply claim checks that can be used to acquire things in the markets (including the gold in the banks, which in practical effect is always being offered to whoever desires to give other money for it).

Also, during the 1930's, the years of the Great Depression, the economic notions of John Maynard Keynes became widely accepted as the remedy for depression difficulties. The new economic ideas (actually very old, but new to many ignorant of history) became virtually an economic "religion" with fanatic followers in all the leading universities of Western civilization.

To summarize, the new ideas involved perpetual inflating as a means of achieving perpetual prosperity. Dr. Keynes' ideas were embodied in the charter of the International Monetary Fund, created in 1945-46. It became, as was intended, a great

engine of inflation, and thus functioned for nearly three decades.

In recent years, the consequences of continued inflating have become increasingly apparent. All the currencies of Western civilization are depreciating (losing buying power) now more rapidly than earlier. All are tending to become worth less and less with no end in sight.

### *Consequences of Inflating*

The international monetary turmoil with the succession of crises, each more serious than the one preceding, is one consequence of the prolonged inflating. Other consequences are the increasing economic distortions, the loss of value relationships, the necessity for even school teachers to organize in unions in order to fight for their living standards, etc. As always in the many centuries of recorded human experience, inflating is the great destroyer of organized society.

Now an advanced stage of the process has been reached. No one can predict the precise timing, but serious economic breakdown, a great and probably prolonged depression is ahead at some point in the perhaps not distant future.

Eventually, if Western civilization is not to decline as did that of Rome and many others in the past, the nations of Western civilization must return to sound money. A modern industrial society cannot be maintained without a sound accounting unit with which to calculate long-term depreciation schedules for business and long-term contracts of all kinds, and to record savings, life insurance, and pension funds in real rather than fictitious values. The tremendous capital investments required for a modern industrial society cannot be maintained, replaced, and enlarged without correct instead of erroneous or false accounting. Accounting in terms of paper units has become a fiction incapable of providing the information essential to the operation of large-scale and long-lasting enterprises.

### *A Useful Accounting Unit*

Of all the possible accounting units that men have used, gold has proven to be by far the best. This fact is becoming increasingly obvious and is recognized by more and more people and businesses who are attempting to survive the difficult years, perhaps decades, ahead.

Inasmuch as most modern industrial nations now use or soon will use the metric system, grams of gold instead of troy ounces probably will be the international currency unit of the future. We use the name "MAU" for one gram of gold in an alloy 0.999 fine (possibly 0.995 will become the standard instead of 0.999). The M is for metric and the AU is the chemical symbol for gold. As in the past, various nations may give different names to the gold unit they finally adopt, but there is no practicable alternative to using gold as the international currency unit.

Already, some accounting is being done in terms of MAU, with MAUEX being the exchange value of MAU in terms of any paper currency as may be indicated such as MAUEX $, or MAUEX S.Fr, or MAUEX £, etc.

That there is little hope for constructive action by any government in the foreseeable future has been emphasized. Perhaps, after a great depression a few or many years hence, the public will have learned the obvious lessons and will insist that sound money be restored. Or perhaps, as has happened so many times before, inflating will destroy social order, and dictatorships of the right and the left, depending on the country concerned, will replace existing governments, in practical effect if not in form.

In any event, those who would survive financially during the years ahead, both individuals and businesses, need not depend on governments and central banks to save them. They can start to keep their accounts in MAU and thereby avoid diverging too far from reality. If enough individuals and businesses choose this route to survival, they may well create a de facto monetary system that will supersede the pathetic monstrosity known as the International Monetary Fund and the leading central banks. By repeating in a shorter period the evolutionary progression that led via the merchant goldsmiths to modern commercial banking, those who thus put their own accounting in order may survive and hasten the restoration of a practicable system of exchanges appropriate to a modern industrial civilization.

*Supplementary Note:* If there are flights from the currencies in major industrial nations, extremely great fluctuations in the "price" of gold in the various currencies probably will occur. These may complicate short-run accounting problems, but any such difficulties will be more than compensated for by the long-run advantages of what may be called accounting realism.

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