

An example to recall for recovery: Hjalmar Schacht (the money wizard)

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Introduction

It is time for humanity to realize what happens to a society when it fails to invest in social relations and make social capital the focus of interest, as history commands. We must understand that social capital cannot be replaced by economic capital. A good society is always a precondition of the growth of economic value, and empirical evidence would seem to confirm this thesis.

But the question is whether we will be able to overcome the current, limitless greed and aggressiveness in favor of a greater focus on a sense of fraternity and solidarity expressed through love for others. *Homo sapiens* really does seem to be rather stubborn as regards understanding its own errors. A species that seems to be very attentive to learning the causes and effects of physical ills, but has not yet managed to correlate the causes and effects over its history. Conceptually, similar situations to that which we find ourselves facing today have occurred before. Perhaps this explains why history is ignored, as if by doing so a kind of barrier is erected against the fear of having to face suffering. Whether *homo sapiens* will deserve this appellation is difficult to say, time will tell if wisdom will turn out to be a blessing or a curse. Should it turn out to be a curse, this will only be because of the failure to intelligently use a truly precious gift, namely our “humanity”.

Premise: The years of the world wars and the consequences

Keynes who had supported Roosevelt in the Great Depression had great esteem for a brilliant economist of the last century now forgotten: Hjalmar Schacht who lifted Germany out of

default first in 1923 and then in 1932. His name is linked to the period of national socialism and therefore forgotten, but his work on the reconstruction of Germany remains an admirable example of technical ability, vision, and innovation. Recalling Schacht, Keynes wrote: "... The fact that this method was used in the service of evil must not blind us to its possible technical advantages in the service of a good cause: exiting the crisis." Hjalmar Schacht's solutions are still current today and could suggest more appropriate answers for the European Central Bank, and particularly Italy, than daily confrontations. Yet, as always, it is important to remember history and its teachings.

At the end of World War I, the peace that would prove precarious was defined by the Treaty of Versailles, which obliged Germany to repay the war damage until the beginning of the 1960s. This position, particularly desired by France, found an opponent in Keynes who strongly criticized the Treaty, arguing that the punitive approach and economic sanctions against Germany would lead to new conflicts and instability rather than ensuring long-term peace. The history of Germany and its people suggested the difficult enslavement of the losing side. Moreover, the war ended without a clear victory on the field but as a consequence of the lack of supplies that could sustain the continuity of a war that had destroyed even the victors like France. A few months after the signing of the Treaty of Versailles, John Maynard Keynes published *The Economic Consequences of Peace* in which the author, who had participated in the negotiations as a representative of the British Treasury, denounced the harshness and senselessness of the "Carthaginian peace" imposed on defeated Germany. The book circulated widely, and still remains in the memory of educated people today. Of course, Keynes did not know the future course of European history, but many later read his book as a premonition: the Carthaginian peace of Versailles was interpreted as the seed of revanchism, Nazism, and World War II. In this sense, one might think that the two world wars can be connected in a single war that found in the latter the answers to the errors of the "peace" imposed. Certainly the dramas

of the second that towed along the continued hatred of the first unleashed an endless brutality, from the concentration camps to the use of atomic weapons. These events helped strengthen the consciences that found in the 1948 Universal Declaration of Human Rights a basic foundation that unfortunately has been acclaimed by a sociocultural model asymmetrical to those rights, and consequently, we now face the same problems. Reading Keynes' book today allows us to relive the conflicts of a century ago, helping us to think about two very urgent and current themes: Europe and populism. It also allows us to understand that history in its long time always repeats itself as G. B. Vico had intuited in his 1725 work *La Storia Nuova* [*The New History*], but unfortunately homo sapiens never seems to want to remember history.

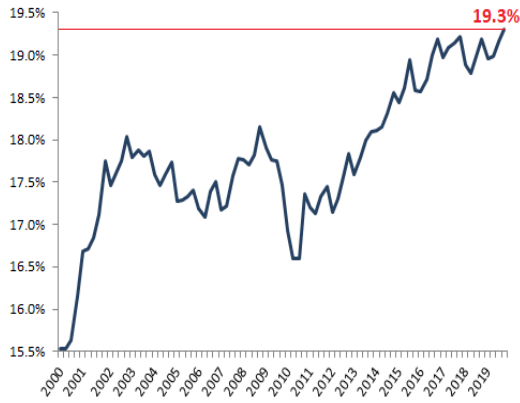
The pain of the second war determined a collaborative process with the Marshall plan aiding the reconstruction of the defeated countries. Perhaps it is not by chance that the losing countries – Germany, Japan, and Italy – undertook massive reconstruction in the post-war period, also giving rise to the “golden age” in the USA, fueled by trade between the different economies.

Let us attempt to trace the dramatically virtuous reconstruction path that Hjalmar Schacht put in place based on brilliant intuitions, but supported by the strong confidence of people in the institutions, which was a salvation, but also prepared the drama of retaliation with World War II.

Germany's disaster after the Treaty of Versailles

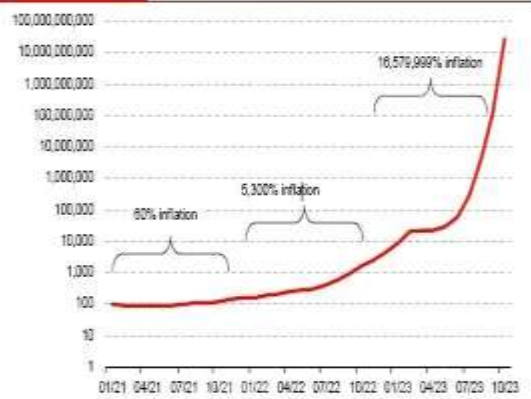
At the end of World War I, with an unsustainable debt position, Germany did not have the means for reconstruction, as these had to be diverted to repay the debt. The dramas threw Germany into economic chaos, as we can see in the following graphs:

Consumer Credit as % of Nominal GDP

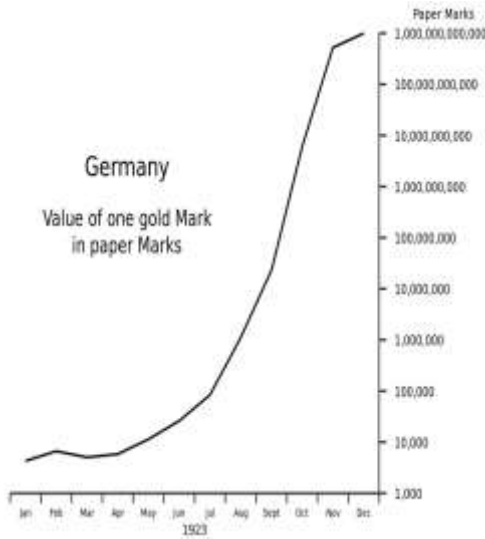


Sources: BEA, Fed Board of Governors, math by WOLF STREET WOLFSTREET.com

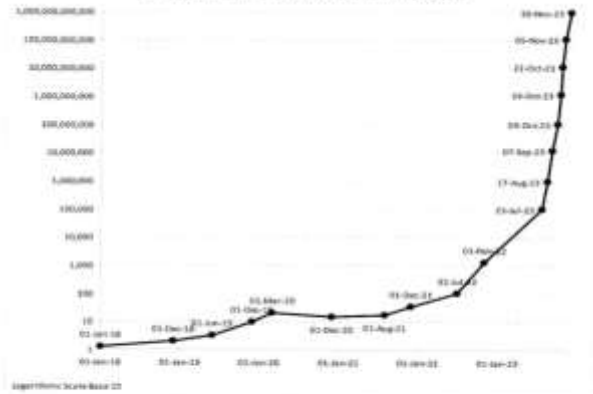
Weimar Germany CPI (log scale) (inflation per annum)



Source: Bresciani-Turroni (1931), SG Cross Asset Research



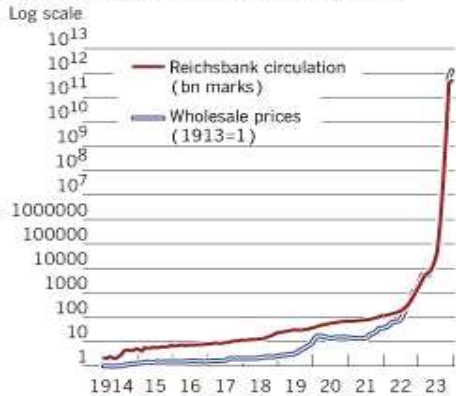
1 "Gold" Mark = "Reichs" Mark 1918-1924



Note: 1 "Gold" Mark value in grammes of fine gold (1913) = 0.35842g; "Reichs" Mark = Currency not tied to the goldstandard in 1918 to 1924.

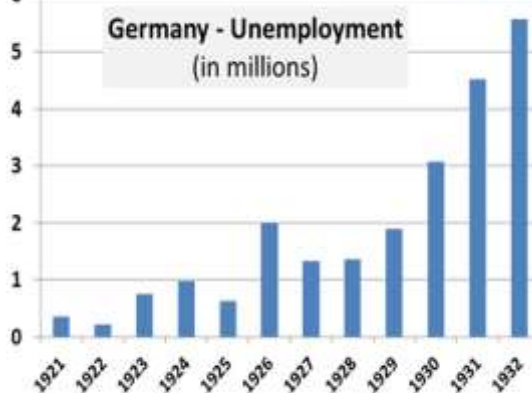
Source: Law about the Revolution of Mortgage and other Claims (Reichsbankgesetz, Reichsbankgesetz, issued the 10th of July, 1924) (Aufwertschwung, Reichsbankgesetz, Teil I, 1925, p.133-135) and Author's calculation.

Hyperinflation in the Weimar republic



Source: 'The Economics of Inflation' C. Bresciani-Turroni, 1937

Germany - Unemployment (in millions)



Data Source: SLjBOR 1939/40

The desperation of hyperinflation led to the endless printing of the papiermark (paper mark), and people went with cart-loads to buy basic food.

Unlike the USA today, which has continued to print paper dollars without any underlying assets since 1971 with the end of the “gold standard exchange”, Germany had lost the war and could not impose the use of its currency to create demand and sustain its value in artificial and forced ways. The start of the petrodollar and the creation of the Swift system in 1973 served to force western countries to use only the dollar for international transactions, and in this way, Italy suffered devastating inflation caused by the depreciation of the lira and creating the conditions for the expansion of public debt to which a political class increasingly unable to deal with problems beyond its capacity certainly contributed. The more the problems grew, the more the political class worsened, both in the specific skills required by the difficulties of history and from an ethical and moral point of view, and the growing and exclusive attention to personal interests created the conditions for the current collapse.

The work of Hjalmar Schacht: An ingenious reconstruction

The resentment generated by the social and economic drama that eroded Germany manifested in the wide support that Hitler’s national socialism slowly but progressively acquired throughout the country. In 1933, Adolf Hitler was appointed to the Chancellery and entrusted Hjalmar Schacht with economic governance and the choice of what to do to escape and manage the increasingly difficult drama. In this sense, it may be useful to recall the solutions launched then to deal with the crisis since 1933, retracing the choices and assess their possible applicability to our situation of high debt, unemployment, suspension of production activities, and the destabilization exercised by a finance that has no control over government bonds.

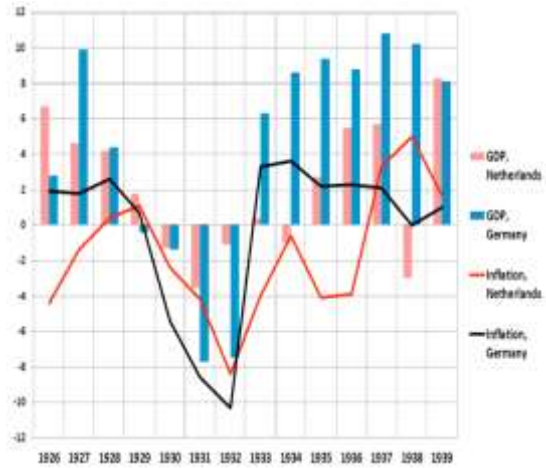
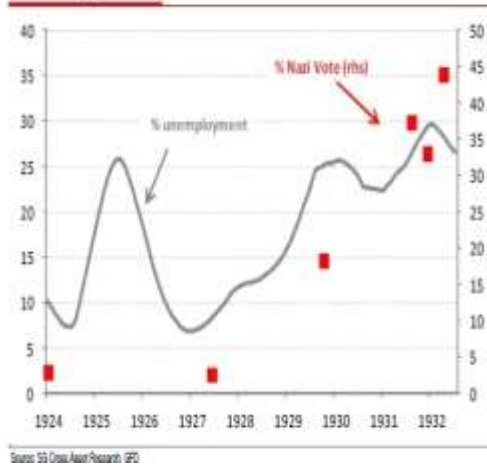
In the face of the disaster, Schacht’s main measure was issuing the MEFO bills on the internal market to finance development. It was directly the Reichsbank, the State central bank, that provided industrialists with the capital they needed: it did not do so by opening up credit lines to them, but by authorizing entrepreneurs to issue State-guaranteed bills of exchange. With these “promises of payment”, the entrepreneurs paid their suppliers. If the MEFO had

been collected at the same time, the central bank would have had to issue money, unleashing inflation, but the German industrialists used the MEFO bills as a means of payment among themselves, without ever bringing them to collection, transforming those securities into “real money, exclusively for use by companies, with fiduciary circulation”. The MEFO bills were sold internally to keep public debt under control and not expose it to external financial speculation, together with this operation reducing the debt position to the outside world. The State, through the issuance of these bills, paid companies and the functional orders to build infrastructures, such as motorways, which were innovative at the time, effectively bypassing the banks in providing capital to companies. The State orders guaranteed the demand for labor, the necessary funds for investments, and the creation of jobs, bringing unemployment down from 7.5 million in 1933 to 400,000 in 1938. The work and income earned made it possible to pay the debt generated by the bills issued over a long period of time. Large companies were nationalized so as not to expose them to the risk of unwelcome disposals and linking small companies to the country’s ideal. Schacht devised an ingenious system to turn purchases of raw materials from other countries into orders for German industry: suppliers were paid in a currency that could only be spent on goods made in Germany. The mechanism, which stimulated the manufacturing sector, worked like a barter system: imported raw materials were paid for with finished products from domestic industry, thus avoiding the burden of financial intermediation and capital outflows. The German State could therefore create the currency it needed when labor and raw materials were available to develop new economic activities, rather than getting into debt by borrowing money without being subjected to the world exchange markets with the devaluation of the mark.

The result is clearly shown in the following graphs, demonstrating how in only five years Germany completely changed its face, becoming one of the first world powers and nevertheless preparing an overall force that would kick off the “Ride of the Valkyries” of national socialism

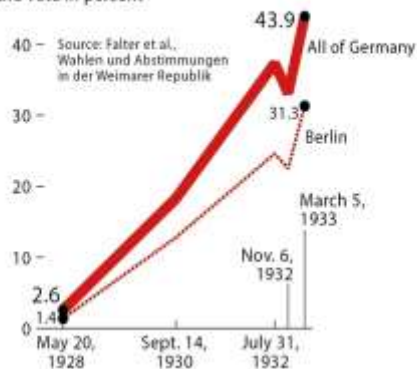
that found other countries that, perhaps deceived by the previous victory, had lost sight of the spectacular change of derelict Germany.

German unemployment and the Nazi vote

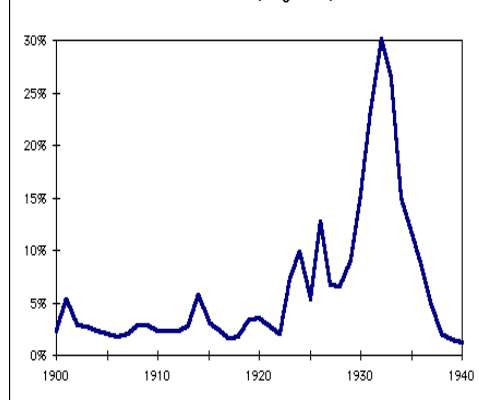


Nazi Voting Results

for Reichstag elections between 1928 and 1933, share of the vote in percent



Estimated German Unemployment, 1900-1940



The collaboration with Hitler's regime ended in 1938 because of disagreements about war expenses. Schacht was acquitted at the Nuremberg trials, and then he lent his sought-after advice to developing countries – Egypt, India, Syria, Indonesia, Japan.

The sterilization of theft finance

Recalling Schacht's work may be useful, as Keynes reminded us, to try to propose solutions that are not just a direct and perhaps self-defeating confrontation with European partners, but

might provide innovative answers to a crisis that cannot be responded to with the same thought that created it. The idea of an internal solution to rebuild trust in institutions serves to recompose the sense of solidarity and sharing that has always characterized our people. The idea of a State-guaranteed and tax-free loan may be useful to drain liquidity from banks for the real economy and abandon the illusions of false finance. The possibility of subtracting the debt from financial markets should enable bringing back a substantial part of the treasury bills to avoid speculative operations by merchant banks holding Italian treasury bills, which gain not only on the upward pressure on interest rates on newly issued treasury bills, but above all, on the value of the derivative securities that guarantee the government bonds (credit default swaps). Following Schacht's MEFO idea, the returned treasury bills could be a "virtual currency" capable of financing production activities. Public securities, as Labini recalled, are a type of currency that can be used to make payments of a certain entity where cash is not needed. Their monetary counter-value is based on trust in the capacity to respect payment commitments, as it is essential to invest in trust, as was the case in Germany. Subtracting largely sovereign debt from international markets would reduce the speculative spaces of a finance that is now out of control, linking it to development and growth, which would help create a virtuous circle; investing in trust to increase social capital and thus create a real and not fictitious economy like we have today. Japan has chosen this path, keeping its debt internal and outside of financial speculation. Even if its public debt is double Italy's, it does not have the problem of the spread with a sort of sovereign currency, foreseeing the issuance of particular treasury certificates reserved for the savings of families with safe returns and anchored to inflation, thus free from deadly speculation.

The USA in 2020 and Germany in 1923

A situation similar to that of Germany in 1933 seems to be emerging in the USA where the uncontrolled mass of paper money - the papier dollar - without an underlying asset is

increasingly accumulating towards its progressive devaluation to the extent that the USA will no longer be able to force the extensive use of the dollar in international transactions, losing its role as a global reference currency, and now at risk. The following graphs show today's correlations with those of Schacht's Germany:

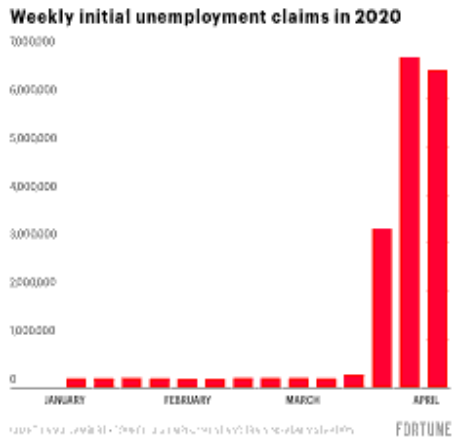
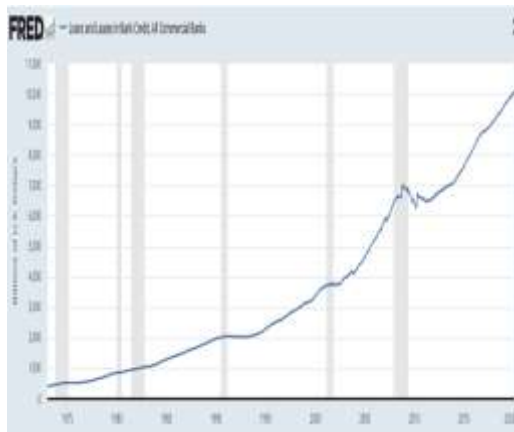
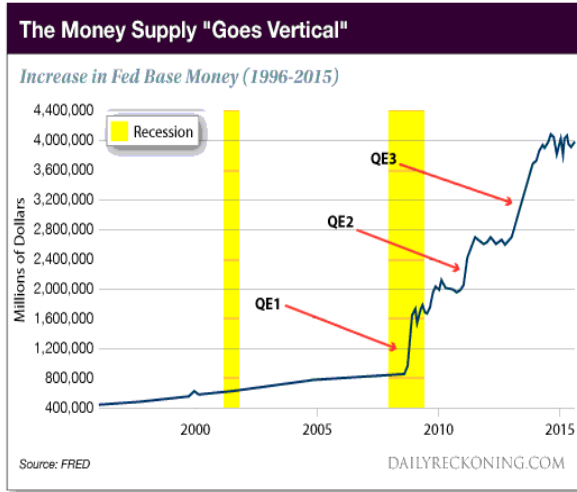
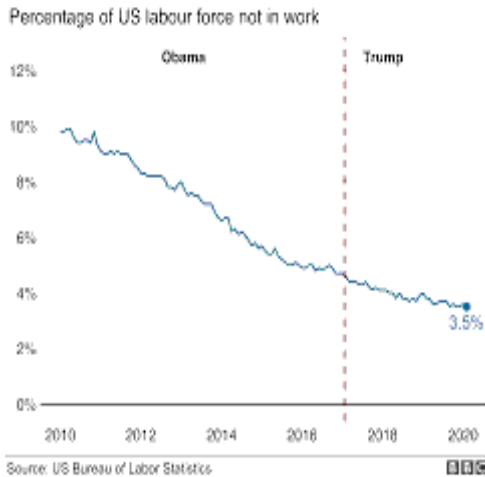


Figure 2: How many milligrams of gold can be purchased for one US dollar?



US unemployment rate

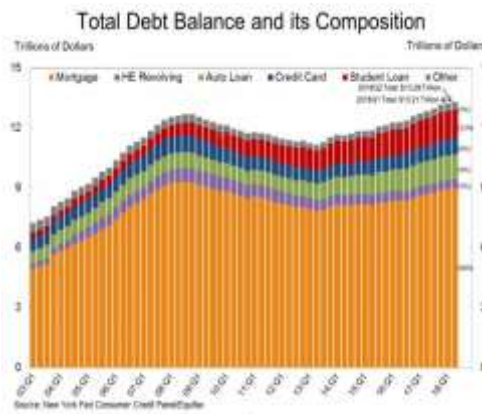


Paper Dollar Inflation 1945 to 2011 US Dollars to One Ounce of US Gold

Event Milestones	Year	Dollars per One Ounce US Gold Reserve
Start of Bretton Woods	1945	\$39.00 : 1
Start of London Gold Pool	1961	\$64.97 : 1
Kennedy Assassination	1963	\$81.42 : 1
End of London Gold Pool	1968	\$135.01 : 1
US Closed Gold Window	1971	\$198.82 : 1
Barron's 18 March 2011 Issue	2011	\$3812.65 : 1

The Bretton Wood's Monetary Accords instituted a \$35 Dollar an ounce Gold Standard. This Standard was to prevent the United States from Printing more than \$35 Paper Dollars for Every Ounce of Gold held in the US Treasury. History shows that the US never took the BWA's \$35 / 1 Ounce of Gold Standard Seriously. This is the Root Cause of today's Current Debt Crisis.

Source Barron's
Graphic by Mark J Lundawn



The sociocultural collapse of the USA as shown in the graphs is the result of finance that has become a philosopher's stone and the suicidal mantra of "creating shareholder value". The causes in brief are as follows:

- Wild relocation made China the world's factory, and manufacturing work went from 23% in the late 1980s to 11% in 2019, and today, as shown in the graphs, has collapsed. Unemployment has been masked with underemployment that provided evidence of extraordinary results settling at 3.5% according to the official manipulated data. It took only one month of the pandemic to collapse the artificiality of manipulation, with unemployment rising to 30%.
- The push toward finance played on the idea of continuing to print money without an underlying asset, but with the changing geopolitical balances, the use of the dollar as a central currency collapsed, and the Fed continued to inject liquidity (Fiat money) without

limits, but in the face of current production activities did not affect the real economy. All the data related to lifting the Dow Jones were determined by buy-back operations, until the system collapsed with the arrival of the Minsky moment.

- The amount of gold formally present in the FED and Fort Knox dates back to a 1973 measure no longer repeated, and currently the real value of the immense volume of printed paper is unknown.

- Social conflicts are multiplying precisely as the next elections approach, and the social revolt is meanwhile cloaked by the pandemic, which is not in itself the cause but the trigger.

- Relocation has forced the USA to depend in many sectors on imports from other countries, in the health sector alone depends for almost 93% on China, which could decide to no longer be paid in dollars whose sustainability becomes uncertain, but only in gold or real goods, in short, a barter system.

Hjman Schacht's recipe would also be suitable for the USA and perhaps even more so for Italy. History is always a source of important teachings, but homo sapiens never seems to want to recall it.

Certainly a fundamental step is re-proposing a system of trade based on real values to define a fixed exchange system similarly to that which characterized the golden age; a potentially valid path to follow, even if opposing interests are high. Thus, escaping from theft finance and restoring the relationship between paper money with an underlying asset and the separation between merchant banks and commercial banks, the latter having become easy prey to the former, would be the highroad. Finance without any control has become a pure weapon of robbery used to destabilize States and enterprises. Weak politics has become hostage to a superordinate power that dictates its agenda to pursue its own interests, and every day we see the dramatic consequences at the social level. The abandonment of any ethical and moral principles aimed at protecting society and individuals is seen only in function of the principle

of utility, in other words, as a means. The challenge to the crisis becomes epochal at a time when we must redefine the ends and means. The current socio-cultural model has switched them, placing personal interest as the ends and economy/finance, society, and social capital as the means to achieve the ends. Recomposing the right declination between the ends and means with humanity at the center of our interest is the primary challenge we face, and moving from the exclusive search for the personal good to the common good is the only means to avoid chaos.

Conclusion

The theme of the “common good” is an aspiration, today we would say utopian, deemed fundamental since man became aware of community life and particularly by the Greek philosophers. Aristotle introduced the idea that there are certain cardinal virtues (courage, generosity, sincerity, justice, etc.) situated at the “mean” of two opposite extremes. True happiness, then, is a process of interaction and reciprocal influence between personal wellbeing and collective wellbeing. In the meaning in Nicomachean Ethics, this process is defined with the term “eudaimonia”. The Greek philosopher first introduced the term (the etymology of eudaimonia derives from the ancient Greek “eu” meaning good and “daimon” meaning genius; commonly translated as happiness or welfare: the whole leads to happiness that is realized in harmony with others and not in the search for immediate pleasure, as in today’s materialism). Aristotle harshly criticized the idea of happiness understood as the simple satisfaction of needs and desires, contrasting “the pleasant life” with “the good life”. Aristotle interpreted “eudaimonia” as the tension towards excellence, based exclusively on one’s own potential, but in such process, individual happiness can only be realized within the social space. Therefore, eudaimonia encompasses not only individual wellbeing, but also a path of integration with the surrounding world. Community life has always been intended as a difficult path towards the

composition of a just society to be achieved with the contribution and renunciation of all members of a human organization.

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