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The Lasting Legacies of World War I: Big Government, Paper Money and Inflation

By Richard M. Ebeling*

This November marks the 90th anniversary of the end of World War I. The war ushered in a period of big government and paper money inflations. The most devastating examples were the hyperinflations in postwar Germany and Austria. The world still is under the influence of those same ideas of government paternalism and monetary central planning.

Ninety years ago the First World War came to an end when an armistice was signed at 11 a.m. on the 11th of November 1918. For more than four years, the major world powers had been in mortal combat with each other. The conflict radically changed the world. It overthrew the pre-1914 era of relatively limited government and free market economics, and ushered in a new epoch of big government, planned economies, and massive inflations.

All the leading countries of Europe were drawn into the war. It began when the archduke of Austria-Hungary, Franz Ferdinand, and his wife, Sophia, were assassinated in Bosnia in June 1914. The Austro-Hungarian government claimed that the Bosnian-Serb assassin had the clandestine support of the Serbian government, which the government in Belgrade denied.

Ultimatums and counter-ultimatums soon set in motion a series of European military alliances among the Great Powers. In late July and early August, the now-warring parties issued formal declarations of war. Imperial Germany, the Turkish Empire, and Bulgaria supported Austria-Hungary. Imperial Russia supported Serbia, which soon brought in France and Great Britain because these countries were aligned with the czarist government in St. Petersburg. Italy entered the war in 1915 on the side of the British and the French.

The United States joined the conflict in April 1917, a month after the abdication of the Russian czar and the establishment of a democratic government in Russia. But a few months following the Bolshevik Revolution in November 1917, Lenin's communist government signed a separate peace with Germany and Austria-Hungary, taking Russia out of the war.

The arrival of large numbers of American soldiers in France in the summer of 1918 turned the balance of forces against Germany on the Western Front. After having been driven out of the French territory they had occupied since the first year of the war, the Germans agreed to the armistice that ended what was already called the Great War.

The Human and Material Costs of War

The human and material cost of the First World War was immense. During the conflict more than 60 million men were called up to fight. At least 20 million soldiers and civilians lost their lives, with an equal number wounded. The participating governments combined spent more than $145.9 billion in fighting each other. In 2008 dollars, this represents a monetary expenditure of more than $3.1 trillion, or the equivalent of the entire U.S. budget for fiscal year 2008.

These numbers, of course, do not capture the human suffering from the four years of war. On the Western Front, which ran through northern France from the English Channel to the Swiss border, millions of soldiers lived endless months—years—in frontline

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trench warfare. They fought in the heat of the summer and the cold of winter, often with the decomposing bodies of their fallen comrades next to them for days on end.

They fought in battles such as the one for Verdun in which hundreds of thousands of men were killed during human wave attacks in attempts to capture enemy positions. Soldiers were mowed down by machine guns or crushed under the treads of that new machine of war, the tank. The airplane entered modern warfare for the first time, raining down bombs on both military and civilian targets. And both sides introduced the use of poison mustard gas that blinded the eyes, blistered the lungs, and brought agonizing death.

War and the End of Limited Government Liberalism

The First World War also brought about the end of the liberal epoch in modern Western civilization. For most of the 100 years before 1914, the Western world had moved in the direction of greater individual freedom and wider economic liberty.

All-powerful kings were replaced with representative democratic government or constitutionally limited monarchy. Civil liberty brought about impartial equality before the law and the end of slavery. The older 18th-century mercantilist system of economic planning and control by government was ended. In its place, arose domestic free enterprise and widening global freedom of trade. The standard of living of tens of millions in the West began to dramatically rise above subsistence and starvation for the first time in human history

War may not have been abolished in the 19th century, but new international "rules of war" meant that they were less frequent, of shorter duration, and when among the Great Powers, often involved fewer deaths and greater respect for civilian life and property. (The American Civil War in the 1860s was the one major exception with more than 600,000 deaths and massive destruction in the Southern states.)

Wars and armament races, many argued at the time, had become too costly and destructive among "civilized" nations. A universal epoch of international peace was hoped for when the new century dawned in 1900.

But in 1914, the First World War shattered the long liberal peace that had more or less prevailed in Europe since the last world war that ended with the defeat of Napoleon's France in 1815. But even before 1914, there were emerging anti-liberal forces that were moving the world toward greater government control and a renewal of international conflict.

The Rise of Nationalism and Socialism

Early in the 19th century, the ideology of nationalism became a new rallying cry for peoples throughout Europe and increasingly around the world. If liberalism had espoused peaceful market exchange and the freedom of individuals under the rule of law, nationalism called for the forced unification under one government of all peoples speaking the same language or sharing the same culture or ethnicity. National collectivism was considered a higher ideal than respect for the liberty of the individuals comprising communities and nations.

In the middle of the 19th century, another form of collectivism started to gain popularity and support: socialism. Karl Marx and other socialists argued that capitalism was the root of all social evil, causing poverty and resulting in exploitation of the masses for the benefit of those who privately owned the means of production. Socialists called for the nationalization of the means of production, central planning of all economic activity, and the curtailing of individual freedom for the sake of the collective good.

War and the Planned Society

Imperialist designs by the Great Powers in conjunction with the new ideological forces of rising nationalism and socialism all came together in the caldron of conflict that enveloped so much of the world after 1914. Immediately with the outbreak of hostilities, the liberal system of individual liberty, private property, free enterprise, free trade, limited government, low taxes, and sound money was thrown to the wind.

The epoch of political and economic collectivism had begun. Civil liberties were rapidly curtailed in all the belligerent nations, with laws restricting freedom of speech and the press. Opponents of war were silenced with long prison sentences for "anti-patriotic" behavior. Industry and agriculture were soon placed under increasingly strict price and wage controls. Governments imposed wartime planning boards that directed the economic activities of all. They raised taxes to heights never experienced even under the most

Treasury Bills Discounted by the Reich, Issues of Paper Currency, Index of Wholesale Prices, and Index of Dollar Exchange Rates Against Paper Marks; 1919-1923

(Value figures in millions of marks)

End of Month	Total amount of Treasury Bills discounted by the Reich	Total issues of paper currency (except emergency currency)	Index of wholesale prices 1913=1	Index of dollar exchange rates in Berlin 1913=1
1919 Dec.	86,400	50,065	8.03	11.14
1920 June	113,200	68,154	13.82	9.17
Dec.	152,800	81,387	14.40	17.48
1921 June	185,100	84,556	13.66	17.90
Dec.	247,100	122,497	34.87	43.83
1922 June	295,200	180,169	70.30	89.21
July	308,000	202,626	100.59	159.60
Aug.	331,600	252,212	192.00	410.91
Sept.	451,100	331,876	287.00	393.04
Oct.	603,800	484,685	566.00	1,071.94
Nov.	839,100	769,500	1,154.00	1,822.30
Dec.	1,495,200	1,295,228	1,475.00	1,750.83
1923 Jan.	2,081,800	1,999,600	3,286.00	11,672.00
Feb.	3,588,000	3,536,300	5,257.00	5,407.00
Mar.	6,601,300	5,542,900	4,827.00	4,996.00
April	8,442,300	6,581,200	5,738.00	7,099.00
May	10,275,000	8,609,700	9,034.00	16,556.00
June	22,019,800	17,340,500	24,618.00	36,803.00
July	57,848,900	43,813,500	183,510.00	262,030.00
Aug.	1,196,294,700	668,702,600	1,695,109.00	2,454,000.00
Sept.	46,716,616,400	28,244,405,800	36,223,771.00	38,113,000.00
Oct.	6,907,511,102,800	2,504,955,700,000	18,700,000,000.00	17,270,129,000.00
Nov.	191,580,465,422,100	400,338,326,400,000	1,422,900,000,000.00	1,000,000,000,000.00
Dec.	1,232,679,853,100	496,585,345,900,000	1,200,400,000,000.00	1,000,000,000,000.00

Frank D. Graham (1890-1949) taught at Princeton University and was one of America's foremost monetary economists in the period between the two world wars. His book, *Exchange, Prices, and Production in Hyperinflation: Germany, 1920-1923* (Princeton University Press, 1930) is considered one of the major classics in monetary history. In lucid prose and a wealth of historical and statistical data, he shows how monetary mismanagement brought Germany to the verge of economic destruction. The table above, which is a facsimile of the original, concisely captures the disintegration of the currency system.

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plundering hands of absolute monarchs of the past.

Governments also ended international free trade, and introduced rigid regulations over all imports and exports. The 19th-century freedom of movement under which people in the West could travel from one nation to another without passport or visa was abolished, and a new era of immigration and emigration barriers began.

The individual was now completely under the control and command of the state. With this came a new governmental responsibility: direct caring for the economic welfare of the citizenry. German free-market economist Gustav Stolper explained:

> Just as the war for the first time in history established the principle of universal military service, so for the first time in history it brought economic national life in all its branches and activities to the support and service of state politics—made it effectively subordinate to the state. . . . Not supply and demand, but the dictatorial fiat of the state determined economic relationships—production, consumption, wages, cost of living. . . . At the same time, and for the first time, the state made itself responsible for the physical welfare of its citizens; it guaranteed food and clothing, not only to the army in the field but to the civilian population as well. . . . Here is a fact pregnant with meaning: the state became for a time the absolute ruler of our economic life, and while subordinating the entire economic organization to its military purposes, also made itself responsible for the welfare of the humblest of its citizens, guaranteeing him a minimum of food, clothing, heating, and housing.

Gold, Inflation, and the War Finances

Along with these other losses of freedom came yet another abridgement of the liberal system of government: the abolition of the gold standard. During the 25 years of war between France and Great Britain following the French Revolution of 1789, both governments had resorted to the money printing press to finance their war expenditures. As a result, inflation had eaten away at the wealth and security of the British and French citizenry.

When those wars ended in 1815, the lesson learned was that governments could not be trusted with direct control over the creation of money. The liberal monetary goal was the reestablishment of the gold standard, so the amount of money in society was independent of political manipulation. Better to rely upon the market forces of supply and demand and the profitability of gold mining, the liberals argued, than the caprice of politicians and special interest groups desiring to print the paper money they wanted to use to plunder the peaceful production of the mass of humanity.

Through the decades of the 19th century, first Great Britain and then the rest of the Western nations legally established the gold standard as the basis of their monetary systems. The gold standard was mostly managed by national central banks. But they were expected to, and for the most part did, abide by the monetary "rules of the game" of limiting increases (or decreases) in the domestic currency to additions to (or reductions in) the nation's supply of gold. Sound money for the 19th-century liberals was gold money.

But with the firing of the first shots in the summer of 1914, the belligerent governments all ended legal redemption of their currencies for fixed amounts of gold. The citizens in these warring counties were pressured or compelled to hand over to their respective governments the gold in their private hands, in exchange for paper money. Almost immediately, the monetary printing presses were set to work creating the vast financial means needed to fight an increasingly expensive war.

In 1913, the British money supply amounted to 28.7 billion pounds sterling. But soon, as British economist, Edwin Cannan, expressed it, the country was suffering from a "diarrhea of pounds." When the war ended in 1918, Great Britain's money supply had almost doubled to 54.8 billion pounds, and continued to increase for three more years of peacetime until it reached 127.3 billion pounds in 1921, a fivefold increase from its level eight years earlier.

The French money supply had been 5.7 billion francs in 1913. By war's end in 1918, it had increased to 27.5 billion francs. In this case, a fivefold increase in a mere five years. By 1920, the French money supply stood at 38.2 billion francs. The Italian money supply had been 1.6 billion lire in 1913 and increased to 7.7 billion lire, for a more than fourfold increase, and stood at 14.2 billion lire in 1921.

In addition, these countries took on huge amounts of debt to finance their war efforts. Great Britain had a national debt of 717 million pounds in 1913. At the end of the war that debt had increased to 5.9 billion pounds, and rose to 7.8 billion pounds by 1920. French national debt increased from 32.9 billion francs before the war to 124 billion francs in 1918 and 240 billion francs in 1920. Italy was no better, with a national debt of 15.1 billion lire in 1913 that rose to 60.2 billion lire in 1918 and climbed to 92.8 billion in 1921.

Though the United States had only participated in the last year and a half of the war, it too created a large increase in its money supply to fund government expenditures that rose from $1.3 billion in 1916 to $15.6 billion in 1918. The U.S. money supply grew 70 percent during this period from $20.7 billion in 1916 to 35.1 billion in 1918. Twenty-two percent of America's war costs were covered by taxation, about 25 percent from printing money, and the remainder of 53 percent by borrowing.

War and the Great German Inflation

The most severe inflations during World War I occurred in Central and Eastern Europe. Among the worst of these were the ones in Germany and Austria during and then after the war, with the near total collapse of their currencies in 1922 and 1923.

For decades before the start of the war, German nationalist and imperialist ambitions were directed to military and territorial expansion. A large number of German social scientists known as members of the Historical School had been preaching the heroism of war and the superiority of the German people who deserved to rule over other nationalities in Europe.

Hans Kohn, one of the 20th-century's leading scholars on the history and meaning of nationalism, explained the thinking of leading figures of the Historical School, who were also known as "the socialists of the chair" in reference to their prominent positions at leading German universities. He wrote:

> The "socialists of the chair" desired a benevolent paternal socialism to strengthen Germany's national unity. Their leaders, Adolf Wagner and Gustav von Schmoller, [who were Heinrich von] Treitschke's colleagues at the University of Berlin and equally influential in molding public opinion, shared Treitschke's faith in the German power state and its foundations. They regarded the struggle against English and French political and economic liberalism as the German mission, and wished to substitute the superior and more ethical German way for the individualistic economics of the West. . . In view of the apparent decay of the Western world through liberalism and individualism, only the German mind with its deeper insight and its higher morality could regenerate the world.

These German advocates of war and conquest also believed that Germany's monetary system had to be subservient to the wider national interests of the state and its imperial ambitions. Austrian economist Ludwig von Mises met frequently with members of the Historical School at German academic gatherings in the years before World War I. He recalled:

> The monetary system, they said, is not an end in itself. Its purpose is to serve the state and the people. Financial preparations for war must continue to be the ultimate and highest goal of monetary policy, as of all policy. How could the state conduct war, after all, if every self-interested citizen retained the right to demand redemption of bank notes in gold? It would be blindness not to recognize that only full preparedness for war [could further the higher ends of the state].

Germany's Great Inflation began with the government's turning to the printing press to finance its war expenditures. Almost immediately after the start of World War I, on July 29, 1914, the German government suspended all gold redemption for the mark. Less than a week later, on August 4, the German Parliament passed a series of laws establishing the government's ability to issue a variety of war bonds that the Reichsbank—the German central bank—would be obliged to finance by printing new money. The government created a new set of Loan Banks to fund private sector borrowing, as well as state and municipal government borrowing, with the money for the loans simply being created by the Reichsbank.

During the four years of war, from 1914 to 1918, the total quantity of paper money created for government and private spending went from 2.37 billion to 33.11 billion marks. By an index of wholesale prices (with 1913 equal to 100), prices had increased more than 245 percent (prices failed to increase far more because of wartime controls). In 1914, 4.21 marks traded for $1 on the foreign exchange market. By the end of 1918, the mark had fallen to 8.28 to the dollar.

The Results of Germany's Hyperinflation

But the worst was to come in the five years following the war. Between 1919 and the end of 1922, the supply of paper money in Germany increased from 50.15 billion to 1,310.69 billion marks. Then in 1923 alone, the money supply increased to a total of 518,538,326,350 billion marks.

By the end of 1922, the wholesale price index had increased to 10,100 (still using 1913 as a base of 100). When the inflation ended in November 1923, this index had increased to 750,000,000,000,000. The foreign exchange rate of the mark decreased to 191.93 to the dollar at the end of 1919, to 7,589.27 to the dollar in 1922, and then finally on November 15, 1923, to 4,200,000,000,000 marks for the dollar.

During the last months of the Great Inflation, according to Gustav Stolper, "more than 30 paper mills worked at top speed and capacity to deliver notepaper to the Reichsbank, and 150 printing firms had 2,000 presses running day and night to print the Reichsbank notes." In the last year of the hyperinflation, the government was printing money so fast and in such frequently larger and larger denominations that to save time, money, and ink, the bank notes were being produced with printing on only one side.

Finally, facing a total economic collapse and mounting social disorder, the German government in Berlin appointed the prominent German banker, Halmar Schacht, as head of the Reichsbank. He publicly declared in November 1923 that the inflation would be brought to an end and a new non-inflationary currency backed by gold would be issued. The printing presses were brought to a halt, and the hyperinflation was stopped just as the country stood at the monetary and social precipice of total disaster.

But the statistical figures do not tell the human impact of such a catastrophic collapse of a country's monetary system. In his book, *Before the Deluge: A Portrait of Berlin in the 1920s* (1972), Otto Friedrich wrote: "By the middle of 1923, the whole of Germany had become delirious. Whoever had a job got paid every day, usually at noon, and then ran to the nearest store, with a sack full of banknotes, to buy anything that he could get, at any price. In their frenzy, people paid millions and even billions of marks for cuckoo clocks, shoes that didn't fit, anything that could be traded for anything else." The price of a cup of coffee could double in the time that a customer took to drink it in a Berlin café in the autumn of 1923.

Food supplies became both an obsession and a currency. The breakdown of the medium of exchange meant that the rural farmers became increasingly reluctant to sell their agricultural goods for worthless paper money in the cities. Urban dwellers streamed back to the countryside to live with relatives in order to have something to eat. Anything and everything was offered and traded directly for food to stave off the pangs of hunger.

The inflation generated a vast and illusionary economic boom. In his classic study, *The Economics of Inflation* (1931), Constantino Bresciani-Turroni detailed how inflation distorted the structure of prices and wages, generating paper profits that created a false conception of wealth and prosperity. As the inflation pushed the selling price of a manufactured good was pushed far above the original costs of production, profits appeared huge. But when the manufacturer went back into the market to begin his production process again, he found that the costs of resources and labor had also dramatically increased. What had looked like a profit was not enough to replace the capital used up earlier. Inflationary profits hid from view what was actually a process of capital consumption.

The distorted relative-price signals during the inflation resulted in misallocations of capital and labor in various investment projects that were found to be unsustainable and unprofitable when the monetary debauchery finally came to an end. Thus a "stabilization crisis" followed the inflation. Capital and investment projects were left uncompleted because of a lack of available real resources, and workers faced a period of unemployment as they discovered that the jobs the inflation had drawn them into had now disappeared. The consumption of capital and the misuse of resources and labor during the years of inflation left the German people with a far lower real standard of living, which only years of work, savings, and sound new investment could improve.

Germany's economic recovery in the middle and late 1920s turned out to be an illusion as well. A game of financial musical chairs was played out in which Germany borrowed money from the United States to pay off reparations to the victorious Allied powers, as well as to finance a vast array of municipal public works projects and business investment activities sponsored by the government. These all came crashing down when the boom of the 1920s turned into the Great Depression of the 1930s. The hyperinflation and subsequent crash also set the political stage for Adolf Hitler's rise to power in 1933.

The Hapsburg Empire and the Great Austrian Inflation

As clouds of war were forming in the summer of 1914, Franz Joseph (1830–1916) was completing the 66th year of his reign on the Hapsburg throne. During most of his rule, Austria-Hungary had basked in the 19th-century glow of the classical liberal epoch. The constitution of 1867, which formally created the Austro- Hungarian empire, insured every subject in Franz Joseph's domain all the essential personal, political, and economic liberties of a free society.

The empire encompassed a territory of 415,000 square miles and a total population of more than 50 million. The largest linguistic groups in the empire were the German speaking and Hungarian populations, each numbering about 10 million. The remaining 30 million were Czechs, Slovaks, Poles, Romanians, Ruthenians, Croats, Serbs, Slovenes, Italians, and a variety of smaller groups of the Balkan region.

In the closing decades of the 19th century, the rising ideologies of socialism and nationalism superseded the declining liberal ideal. Most linguistic and ethnic groups clamored for national autonomy or independence, and longed for economic privileges at the expense of the other members of the empire. Even if the war had not brought about the disintegration of Austria-Hungary, centrifugal forces were slowly pulling the empire apart because of the rising tide of political and economic collectivism.

As with all the other European belligerent nations, the Austro-Hungarian government immediately turned to the printing press to cover the rising costs of its military expenditures. At the end of July 1914, just after the war had formally broken out, currency in circulation totaled 3.4 billion crowns. By the end of 1916, it had increased to more than 11 billion crowns. At the end of October 1918, shortly before the end of the war, the currency had expanded to a total of 33.5 billion crowns. From the beginning to the close of the war, the Austro-Hungarian money supply in circulation had expanded by 977 percent or more than ninefold**.** A cost-of-living index that had stood at 100 in July 1914 had risen to 1,640 by November 1918.

But the worst of the inflationary and economic disaster was about to begin. Various national groups began breaking away from the empire, with declarations of independence by Czechoslovakia and Hungary, and the Balkan territories of Slovenia, Croatia, and Bosnia being absorbed into a new Serb-dominated Yugoslavia. The Romanians annexed Transylvania. The region of Galicia became part of a newly independent Poland. And the Italians laid claim to the southern Tyrol.

The last of the Hapsburg emperors, Karl, abdicated November 11, 1918. A provisional government of the Social Democrats and the Christian Socials declared German-Austria a republic November 12. Reduced to 32,370 square miles and 6.5 million people—one third of whom resided in Vienna—the new, smaller Republic of Austria now found itself cut off from the other regions of the former empire as the surrounding successor states (as they were called) imposed high tariff barriers and other trade restrictions. In addition, border wars broke out between the Austrians and the neighboring Czech and Yugoslavian armies.

The New Austria and Paper Money Inflation

Within Austria the various regions imposed internal trade and tariff barriers on other parts of the country, including Vienna. People in the regions hoarded food and fuel supplies, with black marketeers the primary providers of many of the essentials for the citizens of Vienna. Thousands of Viennese would regularly trudge out to the Vienna Woods, chop down the trees, and carry cords of firewood back into the city to keep their homes and apartments warm in the winters of 1919, 1920, and 1921. Hundreds of starving children begged for food at the entrances of Vienna's hotels and restaurants.

The primary reason for the regional protectionism and economic hardship was the policies of the new Austrian government. The Social Democrats imposed artificially low price controls on agricultural products and tried to forcibly requisition food for the cities. By 1921, more than half the Austrian government's budget deficit was attributable to food subsidies for city residents and the salaries of a bloated bureaucracy. The Social Democrats also regulated industry and commerce, and imposed higher and higher taxes on the business sector and the shrinking middle class. One newspaper in the early 1920s called Social Democratic fiscal policy in Vienna the "success of the tax vampires."

The Austrian government paid for its expenditures through the printing press. Between March and December 1919, the supply of new Austrian crowns increased from 831.6 million to 12.1 billion. By December 1920, it increased to 30.6 billion; by December 1921, 174.1 billion; by December 1922, 4 trillion; and by the end of 1923, 7.1 trillion.

Between 1919 and 1923, Austria's money supply had increased by 14,250 percent. Prices rose dramatically during this period. The cost-of-living index, which had risen to 1,640 by November 1918, had gone up to 4,922 by January 1920. By January 1921, it had increased to 9,956; in January 1922, it stood at 83,000; and by January 1923, it had shot up to 1,183,600.

The foreign exchange value of the Austrian crown also reflected the catastrophic depreciation. In January 1919, $1 could buy 16.1 crowns on the Vienna foreign-exchange market. By May 1923, a dollar traded for 70,800 crowns.

During this period the printing presses worked night and day churning out the currency. At the meeting of the *Verein für Sozialpolitik* (Society for Social Policy) in 1925, Austrian economist Ludwig von Mises told the audience:

> Three years ago a colleague from the German Reich, who is in this hall today, visited Vienna and participated in a discussion with

> some Viennese economists. . . . Later, as we went home through the still of the night, we heard in the Herrengasse [a main street in the center of Vienna] the heavy drone of the Austro-Hungarian Bank's printing presses that were running incessantly, day and night, to produce new bank notes. Throughout the land, a large number of industrial enterprises were idle; others were working part-time; only the printing presses stamping out notes were operating at full speed.

Finally in late 1922 and early 1923, the Great Austrian Inflation was brought to a halt. The Austrian government appealed for help to the League of Nations, which arranged a loan to cover a part of the state's expenditures. But the strings attached to the loan required an end to food subsidies and a 70,000-man cut in the Austrian bureaucracy to reduce government spending. At the same time, the Austrian National Bank was reorganized, with the bylaws partly written by Mises. A gold standard was reestablished in 1925, a new Austrian shilling was issued in place of the depreciated crown, and restrictions were placed on the government's ability to resort to the printing press again.

But continuing government monetary, fiscal, and regulatory mismanagement prevented real economic recovery before 1938. Then Austria fell into the abyss of Nazi totalitarianism, followed by the destruction of World War II.

The Lasting Legacies of World War I

Out of the ashes of the First World War arose the Soviet communist and Italian fascist forms of totalitarian collectivism. Shortly after, in 1933, the ideologies of communist class conflict and fascist imperialism were joined by German Nazism with its the twisted idea of a master race and world domination.

In the Western democracies, the appeal of collectivist dictatorship never gained great a number of supporters. What World War I left in these countries was a strong belief that the experience of big government in war could be applied in times of peace. As a result, in the 90-year period following the armistice that ended the Great War, countries of the world have turned their backs on the pre-1914 system of limited government liberalism and economic freedom.

The Great Depression of the 1930s only reinforced the notion that paternalist government was essential for a stable society. Along with the intrusive hand of economic regulation in the marketplace came the ideal of monetary central planning. Gold was formally removed as an anchor to limit discretionary political expansion of paper money.

Since World War I, there has been an experiment in managed paper monies by governments everywhere. No leading countries in the West have collapsed into a German- or Austrian-type hyperinflation, but the post-World War II period has seen a continuing pattern of inflationary booms followed by post-bubble recessionary busts.

Expanding money supplies and artificially reduced interest rates have fed misallocations of resources and labor, misdirections of capital investment, and excessive consumer spending. These have necessitated the painful corrections of temporary falling output and rising unemployment that are part of the inescapable adjustments for restored balance in the market and a renewed path for sustainable growth and rising standards of living.

What is needed is to relearn what the older liberals of the 19th century had learned from their experiences with inflationary paper money—that only removing the hand of the government from the monetary printing press can permanently end cycles of booms and busts. This requires a return to a commodity backed currency such as gold.

We can only hope that this earlier wisdom will eventually supersede the legacies of big government and monetary mismanagement that continue to linger 90 years after the end of the Great War.

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