From Mefo Bills to Cryptocurrencies: How Fake Money Leads to Real War

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March 12—Stablecoins have quietly become a *tour de force* in the global cryptocurrency market, representing more than two-thirds of the trillions of dollars-worth of cryptocurrency transactions recorded in recent months. Unlike most private cryptocurrencies, which can often be subject to dramatic price swings, stablecoins are supposedly pegged 1:1 to less volatile assets, such as fiat currencies or commodities, in order to maintain a consistent, predictable value. But there is nothing that ensures such stability, other than the (unaudited) word of the private issuer of the stablecoin. The total market capitalization of stablecoins, including those backed by U.S. Treasury bonds, has increased substantially, recently surpassing $200 billion.

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Hitler's Economics Minister, Hjalmar Schacht.

The way this policy was "sold" to heads of state and government was the toxic illusion that "money," whether backed by a state or not, be it from dope, prostitution, speculation or gambling, creates waves of growth, and that at the end of the day, wealth will "trickle down" to the population as a whole. And since crypto is not legal tender, it doesn't explode inflation statistics.

There is a major historical precedent for such a policy: the rearmament of Germany in preparation for World War II. Weighed down by war reparations imposed by the Treaty of Versailles, and living in fear of a return to the Weimar hyperinflation of 1921-23, Berlin engaged in creative bookkeeping to meet the challenge.

A year after coming to power, Hitler appointed German banker Hjalmar Schacht as Minister Plenipotentiary for the "War Economy." Anglo-American finance, whether it was the brothers John Foster and Allen Dulles in the United States or Montagu Norman, Governor of the Bank of England, knew Schacht's inventiveness and gave him *carte blanche* to arm Germany in the perspective of a war against Russia. If Nazis and Bolsheviks could massacre each other in the East, it would be all profit for the City of London and Wall Street, they believed.

By creating the "Mefo Bills," Schacht earned his title of "financial wizard." In reality, Schacht was simply reviving an old trick tried and tested during the French Revolution. With no money, the French government had confiscated the Catholic Church's property, whose resale was supposed to bring in fresh cash. But buyers were not forthcoming. In the meantime, the government paid its suppliers with *assignats*, IOUs it transformed into a temporary means of payment. Guaranteed by the French state, the suppliers could, in turn, use the *assignats* to settle their expenses. When it became clear that these were nothing more than scraps of paper, the *assignat* pyramid collapsed.

So, what did Schacht do in 1934? Under his instructions, the Reichsbank, the German central bank, and four of the largest arms manufacturers (Krupp, Siemens, Gutehoffnungshütte and Rheinmetall), created a shell company called *Metallurgische Forschungsgesellschaft* (MEFO), or Metallurgy Research Institute. Instead of paying its suppliers in reichsmarks, this institution issued "Mefo bills" to pay its suppliers, who, in turn, could pay their own expenses in Mefo bills. The scheme worked because banks could rediscount Mefo bills with the Reichsbank at any time within three months of their first maturity. Thus, Mefo bills provided a balloon of oxygen for the war economy, perfectly outside the official monetary system.

And since the Mefo bills were not legal tender as a currency, the volumes mobilized were not included in the growth of the monetary mass and were therefore considered not inflationary! Such a subterfuge, of course, could not last forever. To save the Mefo bill bubble, Hitler's government forced savings and commercial banks to invest up to 30% of their deposits in Mefo bonds! For municipalities, this rate was 90%, and similar ratios were imposed on public and private insurance funds! This is more or less what happened in 2013 in Spain, where, to prevent the bankruptcy of Bankia, people's deposits were converted into "*preferentes*," i.e., so-called "preferred" shares in the bank!

On paper, Schacht managed to contain inflation. The official money supply increased by only 33% between February 1933 and February 1938. But at the same time, from 1934 to 1938, the equivalent of more than 12 billion Reichsmarks were created thanks to Mefo bonds, but outside the system. One can imagine what inflation would have been like had this currency had a real monetary issue.

In reality, Schacht's massive monetary expansion and war build-up had an immediate inflationary effect, which the Nazi regime covered up through heavy price controls. However, due to limited availability in stores and artificially set prices, already in 1936, a black market for staple food had developed, which gives an idea of what the inflation was. The official price of bread was 0.5 mark a loaf; on the black market, its price was three times higher. The black market price of beef or pork was also twice the official price; same for shoes and clothes, and even radios, which were in high demand. This phenomenon, which economists call "hidden" or "backload inflation" [*Zurückgestaute* inflation], refers to a situation in which companies or suppliers are temporarily unable to raise their prices, due to government price regulations, subsidies, or other market conditions, even though production costs are rising. As soon as these restrictions are lifted, there is a sudden, sharp rise in prices, because the previously suppressed inflation is "made up for." Germany soon faced what we have come to call hyperinflation.

One can wonder if the EU, to back up its rearmament policies, will soon introduce price controls as the Nazis did, or will it let inflation rock the national economies?

The apostles of the "war economy," today as in the past, must confront a major problem: reality. Printing counterfeit money and IOUs to maintain the nominal value of investment in production, at best, produces nothing, and at worst, produces only destruction, and therefore, by its very nature, is an axiomatically doomed asset.

It's as if a madman were to leave a casino where he had just won a large amount of chips and try to use them to buy real goods from town merchants. In Germany, this madman was called Hitler. And those who refused to accept casino chips as cash, ended up in very bad shape.

To make this "war economy" prosper, Dr. Schacht applied to Germany a policy of self-cannibalization, leading, by its infernal logic, to extermination camps of "useless eaters," as well as to wars of territorial conquest dictated essentially, not only by the imagined need for *Lebensraum*, but also by the need to grab resources lacking at home. He will send trucks to recover the bounty from the rich black earth of Ukraine, he will steal heavy water from the Norwegians, gold from the Austrians, Czechs and Slovakians, and Belgians—all of this, of course, to prepare for a war against Russia. It is up to us to ensure that history stops repeating itself.

A German 1000-Mark Reichsbanknote. *Unlike such Reich banknotes, Schacht's Mefo bills were issued off the books in combination with price controls to conceal the inflation caused by a war economy. By 1936, Germans went without or else paid two or three times the official price for bread or shoes on the black market.*