FLIGHT FROM INFLATION: The Monetary Alternative
By E. C. RIEGEL

An annotated précis prepared by Thomas H. Greco, Jr. May 18, 2003 (Revised, September 12, 2014)

Shortly after reading this astounding work in 1987, I prepared a précis of it, extracting the most provocative statements and evident truths for the benefit of a small circle of correspondents. This précis was lost to me until a recent move caused a hard copy to surface. Since two or three subsequent computer upgrades have caused the original digital file to disappear, I have undertaken to repeat my earlier effort for the benefit of an ever growing circle of monetary freedom advocates and exchange innovators. Now that the entire volume of Flight.. *has been digitized, it will be much more accessible and easier to extract. In the following, all of Riegel's words are in regular type, with my comments being in italics and enclosed in square brackets. I have bolded phrases that I think merit particular attention, and have added some topical headings that may or may not correspond to the headings in the book. Page numbers, where given, refer to the page in the bound volume published by Spencer MacCallum, not the digital file.*
– Thomas H. Greco, Jr. May 18, 2003

Introduction

THIS BOOK PRESENTS a new concept of money, one which promises greater freedom and a broader base for democracy. It points up the futility of the political ballot-and the facility of the monetary 'ballot'-for the attainment of human aspirations. It elucidates an evolution that has progressed unobserved since the inception of monetary media and that is now coming to an end in what appears, on the surface, to be a world calamity.

This book is the first to depart from the traditional concept of money as an instrument of the state. It is the first to propose that money and state be separate.

[Since the 1940's, when these words were written, others, even a few academic economists, have begun to call for the separation of money and state and competition in currency. Yet, the masses of people remain ignorant and enthralled by a power they do not understand, a power that is at once political, as well as economic. The global political monetary regime has been the primary instrument by which power and wealth have become ever more concentrated in fewer hands, and democracy and freedom have been progressively eroded. Its inherent flaws and dysfunctions are responsible for enormous suffering, and the calamity of which Riegel spoke is upon us. Riegel's insights into the nature and mechanisms of money go a long way toward illuminating the path toward peace and freedom. Let us hope that they can be quickly implemented before world despotism becomes total.—t.h.g.]

The Nature of Money

The essential quality of money, however, is its promise to deliver value in *any commodity or service at the choice of the holder.* p. 14.

Unlike a dollar bill or a dollar check, for example, a silver dollar is not wholly money. The former are complete split-barter instruments, while the silver dollar is a qualified split-barter instrument, in that some value is conveyed with the promise. To that extent it is not money. If a silver dollar contains fifty cents worth of silver, its transference is half a monetary transaction and half a barter transaction. pp. 14-15.

A would-be money issuer must, in exchange for the goods or services he buys from the market,

place goods or services on the market. In this simple rule of equity lies the essence of money.

... it is apparent that the buyer who issued the monetary instrument to the seller has made a commitment to the community that is that he, in his turn, will engage in business, *i.e.* will bid for money by offering his own goods and services in the open market. In this competitive situation, he redeems his original issue through the sale of his goods and services. Thus money is actually backed by the value surrendered by the seller and potentially backed by a value in the possession of the next seller. p. 15

...two factors are necessary to money creation: a buyer, who issues it, and a seller, who accepts it. Since the seller expects, in turn, to reissue the money to some seller, it will be seen that **money springs from mutual interest and cooperative action among traders, and not from authority.**

... money is an accounting system,.. p. 16.

... the basis of money is a pledge to surrender value on demand – to offer goods or services in the market at competitive or market price and, thereby, to give value when money is tendered. p. 17.

Money is created by the process of incurring a debit and is destroyed by the process of offsetting a debit. *[by earning a credit]*.

... money is but a medium of evidencing barter balances. It is a claim upon neither particular goods nor particular traders, but upon any goods in the hands of any trader. In that sense only is there a store of value behind monetary instruments. **The idea that there is a reserve of value, such as gold, which can back or support the money extant, is a chimera.** p. 18.
[It can thus be said that a currency (money) collectivizes the credit of all those who agree to use it.]

The only essential is that the initiator *[the issuer]* be also a potential finisher. To be such, he obviously must be a personal enterpriser, *i.e.*, one who is obliged to go into the market and bid for money. This requirement being fulfilled, his issue is genuine money. p. 20.

Money does not destroy the principle of barter. It merely splits it into halves, improving it by introducing a time lag between the surrender of value and the requisition of value, during which lag the monetary instrument certifies the right of the seller to make the requisition at such time and from such trader as he may choose.

The pure monetary medium, when it comes, will be an instrument intrinsically valueless, evidencing the transference of a value that is unidentified with any commodity, yet has a relative requisitionary power upon all. p. 106.

The Concept of an Abstract Value Measure

... only precedent and practice are required to establish a monetary unit. p. 128.
[That may be ultimately so but since political monetary units are already established, any new monetary unit, if it is to establish itself and diverge from the established units, MUST be defined in real terms, e.g., specified amounts of physical commodities or energy.]

A Monetary Rationale

basically, there is only one commodity exchanged, and that is human effort. Labor is the basic or virgin commodity. It has no quality of obsolescence, for it is always associated with the latest and therefore the most timely products. It is the only value. p. 94.

... values are always in a condition of flux, moving in and out of commodities under the control of the law of supply and demand, and hence no commodity retains a fixed portion of value. p. 22.

... it is mistaken to attribute purchasing power to money, for it has none; it is merely the conduit through which purchasing power flows; such purchasing power lying in the commodities or values exchanged. p. 23.

Gold

For many centuries, accordingly, one or more governments have always been willing to bear the expense of maintaining the price of gold above its true value as determined in free exchange, and thus gold has been given the appearance of having a constant value. This has given rise to the superstition that gold is not only stable in value, but that it is, in fact, a criterion of value. p. 107.

Its last artificial support is the dollar, and when the dollar grows too weak from inflation to hold the price of gold above its actual value, gold will be on its own. The dollar will be so reduced in purchasing power that $35 per ounce will actually be a low price for gold, and its price will rise above that figure. p. 109.
[This was written before 1953. Things have developed just as Riegel predicted.]

Definition of Money

Only by turning our backs on the muddle of past monetary economics can we fully understand the subject of money. We must reject such irrelevancies as metallic and other standards, managed currency, bullion and specie redemption, quantity theories, legal tender, and other issues which have consumed endless hours of debate. Let us simply apply our common sense to the rationalization of the subject of money.
Error has labyrinths; truth is an obelisk.

a) Money is a Receipt for Value
b) Expressed in Terms of a Value Unit, and is
c) A Transferable Claim
d) For an Equivalent Value
e) To be Determined by Competitive Exchange
f) In Which the Issuer is an Active Vendor
g) Whose Issue Conforms to the Customs of a Convention of Participants in the Monetary System.
p. 23.

Monetary credit must be a *social* credit, backed by all participants in the exchange system but identified with none.
Only under free competition can the requirements of trade equitably regulate the value of money.

He who would create money to buy goods or services must be prepared to produce goods or services with which to buy money. p. 24.

The rules and regulations prescribed in the convention of the participants must be honored, to assure fidelity of issue. This implies a formally structured monetary system and authority which establishes the monetary unit, prescribes the issuing process, its limits, the implements to be used, and such other mutually acceptable rules as will give dependability to the unit and to the system.

Breviate

The purpose of money is to facilitate barter by splitting the transaction into two parts, the acceptor of money reserving the power to requisition value from any trader at any time.
The method of money is to employ a concept of value in terms of a value unit dissociated from any object.
The monetary unit is any adopted value, which value is the basis relative to which other values may be expressed.
The monetary system is a cooperative agreement among traders to regulate the issuance of monetary instruments, to express and exchange values in terms of the monetary unit, and to keep account of such exchanges. .
Monetary instruments may be any evidences of monetary transactions that serve the convenience of trade and the purpose of accountancy. p. 25.

Circulation and Hoarding

A money hoarder, on the other hand, is one who insists on giving value without receiving value-a monetary masochist. He harms no one but himself, if his extraction of money circulation does not starve exchange, and it cannot if money creation is not controlled by a monopoly. p. 134.
[I must add that something more is needed to assure that the savings *function is kept separate from the* exchange *function. Exchange requires rapid circulation of credits—it requires short-term credit while saving requires long-term credit. As I've described in my books, the transmutation of one form of credit to the other can be managed as part of the agreement among users.]*

Banking

Commercial banks do not lend money. They permit the "borrower" to issue money. The "loan," which is not in any true sense a loan because it does not reduce the money resources of the lender, is simply entered as a credit to the borrower on the books of the bank. It is a paper transaction, no money having been lent and no new money having come into existence. The borrower, however, now has legal authorization to write checks to the extent of the loan and tender them in trade. Upon their acceptance by a seller, new money comes into existence. Until such time as the borrower, through becoming seller, recaptures the money (extinguishes the money he created) with which to liquidate his "loan," there may be many purchase and sale transactions effected by the money he issued. Yet, throughout it all, not a single unit of money has been lent or borrowed. **"Borrowing money" from a commercial bank is but a figurative phrase. It is getting authorization to create money-the first step in the money creating process.**

Money may, however, be truly borrowed from existing reserves of money. True moneylenders include savings banks, building and loan associations, finance companies and individuals. Such money, however, originated in commercial banks through the process above described, and was accrued from surpluses.

Why does money lending exist? A little thought shows that it exists because of the deficiency of commercial bank credit. p. 27.

Borrowing money offers no advantage over creating money, and it has positive disadvantages. Interest charges are usually higher for borrowed than for created money. To the money lender it involves the hazard of default by the borrower, whereas default in a commercial bank "loan " is distributed, almost painlessly, over the entire economy**. "Loans" through commercial banks are underwritten by the entire trading community, whereas a loan of existing money is supported by the resources of the borrower alone.**

Why, then do buyers resort to money lenders rather than commercial banks for needed funds? The only answer is that the banker, the gatekeeper of the trade channel, is limited by statute in the number of passes that he can issue to personal enterprisers. p. 28.
[It has since developed that statutory limits on banks have become minimal or nonexistent. Banks prefer to "lend" at no risk to government, and a low risk to mega-corporations, thus starving the small business sector for credit.]

Legal Counterfeit

What is not generally known - even to the perpetrators - is that governments and banks unconsciously cooperate in *legal* counterfeiting.

... under the natural law of money issuance, governments cannot qualify as issuers, because they are not in the necessitous situation of personal enterprisers. They do not barter, and therefore have no need to escape from barter. They do not bid for money in the open market with goods or services. Their taxing power relieves them entirely from selling; they take merely by taxing. Hence, when they are admitted to the issue power, their issue cannot be a genuine promise to deliver value in trade. It must of necessity be counterfeit,...

This legal-illegal practice is innocently perpetrated, in the United States, not by the issuance of bills and coins, but through the loans made to the Government by commercial banks. p. 33.

... the practice *[of legalized counterfeit]* arises from a universal misconception of the source and essence of money, a misconception which blinds legislators as well as the people they undertake to serve. **Money cannot be governed by man-made laws; it operates solely by natural law.**

[This chapter contains an excellent historical account of the process by which the Constitution was circumvented and the government has appropriated the substance of its citizens by control of the monetary process.]

In those days, *[of the Civil War-era "Greenbacks"]* the means of inflating the circulation was by printing currency. The modern way is to print bonds, sell them to commercial banks, then print checks to draw against the bank balance and let the currency expand according to public demand. This is the smarter way of using the printing press. It fools the people. p. 148.

Legal counterfeit blends with the genuine money supply and is indistinguishable from it. It is, therefore, more insidious and, through sheer volume, vastly more destructive of the power of the monetary unit than is illegal counterfeit. It inevitably manifests itself in higher prices of goods and services. The public is bewildered by the higher prices, and it requires but slight propaganda by the author of the inflation, the Government, to deflect criticism onto private business which, in the end, is always obliged to bring the bad news of rising prices to the people. The public does not realize that it is, in effect, indirectly paying taxes over the merchant's counter instead of paying them directly to the tax collector. The Government finds this a ready way to increase taxation without being detected. p. 39.

The destructive effect of inflation is not confined to its covert taxing power. That is only its early manifestation. Its later destructiveness lies in its power to amend and finally to nullify the contractual relationships upon which the social order depends. **The whole philosophy of freedom is written in the single phrase, *Power to Contract.*** p. 44.

Private, nonpolitical action alone can provide a true monetary system to which the peoples of all lands may turn for self preservation. p. 48.

Any sizable group anywhere, any day, could start a nonpolitical monetary unit and system. There is no law against it, and no legislation need be invoked. The legal tender provision is gratuitous window dressing, for any monetary unit that is not acceptable in trade cannot be made so by law and, if acceptable, needs none. p. 49.
[The legal tender status of political currencies like the dollar does, however, give it a huge advantage over competing currencies.]

Because trade naturally tends to unify and to adopt a single monetary language, one of these *[personal enterprise monetary systems]* systems, through sheer merit, must sooner or later become universal *[i.e., become a standard]*. p. 49.

To avert the utter and complete disorder of a moneyless world, however, such a system must come into being before the present expires through total inflation. p. 50.

The Valun System

The function of the banks would be to **administer**, for an appropriate service charge, t**he mutual credit of their account holders.** The banks would provide credit facilities for the issuance and redemption of valuns by personal enterprisers **and would clear checks** and render other appropriate banking services. p. 52.

There would, of course, be **no interest charge for lines of credit**, since the banks would take no credit risks. **Traders to one another would extend the credit, and the banks would not be involved except as administrators.** Hence, under the valun system, **credit would be free**, but not printing, bookkeeping, insurance and other expenses; service costs would be paid for by the account holders. p. 54.

Credit Limits

How much money might the banks permit each issuer to issue? As much as he could redeem, which means, as much as he might need to get a turnover in his business. This, admittedly, would vary with different lines. All lines, taken together, average about four turnovers a year. **Thus, roughly speaking, business would need an issue power sufficient to span three months.** P. 55

The ideal issue policy would be that each customer of the bank be empowered to purchase equivalent to his capacity to sell and to emit sufficient money within such limitation.

There is an ideal debit policy, but it may have to be worked out by trial and error. p. 55.

The best principle can, however, be simply stated thus: Each person or corporation is entitled to create as much money, by buying, as he or it is able to redeem by selling. p. 95.

Each valun bank would adopt its own credit policy, and it is on credit policy that most of the unsolved problems hinge. p. 136.

... exchange can operate only on a trial and error basis... It is better to allot too much money power than too little. p. 96.

If those who want money and are willing and able to return value to the market for it are restrained from creating that money, the functioning of exchange democracy will be impaired. p.65.

Idle man hours are a more serious loss than unredeemed money and must never be hazarded by overzealously guarding against credit losses. Interrupted production is the only loss that is a net loss *[to the community as a whole]*. p. 101.

Once we have established the principle of debit power *[money creating power]* for all we have released a power for economic stability that does not exist when this power is restricted to certain "creditworthy" individuals. The full benefits of **the democratization of the money** creating power cannot be forecast, but it is plain that this power **could positively prevent depression**. p. 99.
[Again, in the long run this is true, but for an alternative exchange system to gain a foothold in competition with established political currencies, it must be built upon a foundation of the most creditworthy or trusted producers.]

Launching the Valun System

... the valun would have an initial value of one dollar, which would be equal to the power of the dollar on the day of the valun's launching. Thereafter, it would be entirely dissociated from the dollar and independent of any subsequent fluctuations in value that the dollar might have. p. 57.
[This is the main point on which Riegel and I disagree. Sure the dollar should be the starting point, since that is the value concept that is ingrained in people both in the U. S. and internationally, but it is unreasonable to expect that the valun will develop an independent meaning without some help – it needs a lever to lift it out of the dollar rut. That, in my opinion, must be some concrete physical reference – a commodity or basket of commodities. This would be allow people to simultaneously hold two value concepts, the dollar and the valun, and be ever cognizant of the relationship between the two. Riegel elaborates on this point in Private Enterprise Money. *I've written a retort that I've posted to my website at http://beyondmoney.net/2009/09/07/the-legacy-of-e-c-riegel/ . – t.h.g.]*

Existing banks presumably could open valun departments without legal difficulty or political embarrassment, since under the valun system, they would extend no credit and therefore take no risks. Banks would merely administer the credit extended by the account holders to one another. p. 57.
[The subsequent emergence of commercial "barter" exchanges that provide the credit clearing service for their members have been officially recognized in the U.S. as "third party record keepers."]

The actual launching of the valun might be accomplished by enlisting a number of business concerns to pay their bills with *valdol* checks, which would offer the payee the option of accepting payment in valuns or dollars.

In the case of a shortage of either valuns or dollars in an account, and there being an adequate balance of the other, the bank would be authorized to sell a sufficient amount of the long unit on the money market to offset the deficit in the short unit.

It is no more necessary for men generally to understand the science of money than it is for them to understand the science of any other utility. **Given a sufficient number of traders to participate initially, it will take only a few directing individuals to put the system into operation.** p.61.

To whom shall we look to start the valun? We must look to employers, for as we have seen, it is the buyer and not the seller who creates money. The common man begins his exchange activities by selling his services. p. 68.

The first *buyer* in the chain of exchange is the employer. Therefore we must look to employers to start the valun, and employees have the right to expect it to be trustworthy. Employees will repose confidence in what employers profess to be an honest medium of exchange, and they will underwrite that medium with the basic commodity, the mother of all wealth, namely brain and brawn and sweat.

If we distribute buying power adequately, the products of industry will be drawn by the buyer rather than having to be pushed by the seller. With the equitable distribution of the money power, the distribution of goods and services will no longer be a problem. p. 69-70.

... the unemployed man can do more harm to the economy by not buying, than by buying on bank credit, even though his credit remains unliquidated. By the latter process, he isolates the germ of unemployment; by the former, he renders it epidemic.

Inflation/Deflation

Boom results from an expansion of the genuine money supply. This is not inflationary, because it justifies itself by an expansion of production and trade.

Inflation, on the other hand, is the result of the injection of monetary units into the money supply without an offsetting increase of values in the market place.

Bust results from a reduction of the genuine money supply, which is brought about by bankers calling or, as they mature, failing to renew, the "loans" upon which the money is based.

Deflation is not to be confused with *bust*, for **there cannot be deflation without prior inflation**. Just as inflation is not an increase in the genuine money supply, so deflation is not a reduction. Both are produced by governments. By deficit financing (through borrowing from banks) water is injected into the circulation, and by surplus budgets it is extracted, in no wise affecting in either operation the substance of the money supply.

Omnibus Reform

There are no tyrants among men; there are only tyrannies, and the mother of tyrannies is money monopoly. p. 73.

Just as the political monetary system trends power toward the state, so the system based on true money will release the natural forces that trend society toward private initiative, enterprise and democracy. **Pending this fundamental reversal, all resistance to statism is futile.** As long as the only available monetary system is political, exchange, that process by which the social order functions, will never accomplish its natural purpose, the development of prosperity and freedom. p. 73.

To rely on education to reverse the present trend toward statism shows a want of comprehension of the naturalness of personal enterprise. **No one needs to be educated in private initiative and enterprise. These qualities arise spontaneously. All that is needed is that the counterfeiting power of the state, which robs productive effort and rewards parasitism, be removed.** p. 73.

The trouble has arisen from the failure of personal enterprisers to provide **a sound monetary system of, by, and for personal enterprise.** In their default, the state has contrived a socialized system.

... reformers almost universally turn to political rather than economic means of reform. Thus their reform efforts effected through political action, actually salute and strengthen the generator of the evils against which the reforms are directed. p. 74

The state's profession of being an instrument of democracy is pure sham. It is inherently exploitative and autocratic, because it has no means of invoking support by appeal to voluntary patronage. It lives by taxation and functions by edict: To regard the state as the implement of democracy, when it is itself anti-democratic, is surely the most consummate delusion of man.

Let us have done with the idea that democracy can reside in, or operate through, the state; nothing can be democratic that is not dependent upon voluntary patronage. p. 75.

Once the state is denied its power to impose taxes by watering the money stream and is confronted with an aggressive personal enterprise movement that will take over services for which there is actual demand, its disservices will be recognized as such simply because personal enterprise will make no bid for them. Public resistance to taxation will then dispose of them.

Exchange, served by a true monetary system, is a constant reform mechanism. It is the sifter of proposals and projects, the natural mechanism whereby all undertakings are measured for public approval. Its constituency votes early and often, making change and progress facile. Served by an unbiased monetary system, it will be the perfect instrument of democracy. Here will democracy function, vindicating its ideal. p. 76.

... our whole society is tainted with paternalism. The blame for the political perversion of the monetary system must be placed upon society. For it has tried to escape the task of rationalizing the subject and has thrust the problem upon the Great White Father, who is just as ignorant as to what constitutes money but is, of course, glad to grasp power. p. 153.

The so-called academic or conservative or classical teachers and writers are merely different categories of socialists, because they all accept the socialization of the monetary system *[i.e., state control of the monetary system.]*. p. 153.

Democracy

Human aspirations for freedom can never be gratified as long as there is a veto power over self expression, whether imposed by a man on horseback or by means of the ballot box.

Yet the democratic state has no means of functioning other than by popular elections. That being so, the functions of the state must be limited to those public services which are desired by all. Consider the folly of undertaking to express the people's will in all human affairs by an occasional election at which, in one confused shout, we sound our yeas and nays on a multitude of questions. At the same time, we select representatives to guess what it all means, and to divine from it how to execute our will on hundreds of issues that arise after we have given our confused "mandate." ... Can we have self-government, and at the same time delegate the power to govern? p. 78.

[Quoting Arthur Kitson in "A Scientific Solution of the Money Question," 1894 ...] "The issuance of money must be free, in order that industry and commerce may be free; and commerce must be free in order that people may be free. Freedom to life necessitates freedom to maintain life, and this involves freedom of exchanges. Denial of free money is, therefore, a denial of freedom to life."
It is astounding to me that Kitson, after thinking so clearly and fundamentally on money, should have since lapsed into a political money reformer instead of devoting his life to promulgating private enterprise money. p. 131.

It is through the preservation and perfection of the monetary system that economic democracy will demonstrate its potential for human welfare.... **The establishment of a nonpolitical monetary system is but an undertaking in accountancy.** p. 80. *[This has be amply demonstrated by the emergence of LETS, commercial trade exchanges and other mutual credit clearing systems.]*

None will be coerced to participate. None will be barred. There will be but one monetary language for the world, and a democratic monetary system will unite people everywhere in the universal freedom of exchange. p. 81.

New Vistas

Ideas have wings. There is no transportation problem in the export of an idea, and one may give an idea without losing it. Both the giver and the receiver are benefited if the idea is sound. Let us give the peoples of the world an idea, a liberating idea, a constructive idea that involves no sacrifice on our part and no obligation or embarrassment on the part of others.

The authentic approach to realizing man's dream of world union is through the vehicle of a nonpolitical monetary system.

We are approaching the universal collapse of the political monetary system. With such collapse will come revolutions, unless an alternative monetary system shall first come into existence. **A true monetary system could avert the chaos and forestall revolution, thereby preserving the existing national states even while gradually rendering them harmless.** For the political monetary system is the principal instrument of state separatism. Once it is gone, all other interferences with production and exchange will recede. Denied power over the economy through their respective monetary systems, the states will be obliged to abandon their paternalistic pose and stand before the people in their true light, as dependents without productive powers, and utterly devoid of any powers of largess. The trend of human affairs will then be as irresistibly toward individualism and self determination as the present trend is toward socialism and domination by the state. p. 84.

Since no social order has heretofore been predicated upon the principle of a nonpolitical monetary system, it follows that its promulgation will require a revolution in thought and action and that it will be many years before its full implications can be comprehended. ...When he *[the natural person]* asserts that the creation of money is within his own powers, he will surmount the last major barrier to self advancement and a limitless horizon will open before him. p. 85.

I see no need for international relations, and I am sure there is no demand for it, except from special interests that have no respect for the rights of others. It is the provocateur of war. "A decent respect for the opinions of mankind " dictates that no national government have any opinions or policies pertaining to the affairs of other governments or peoples. The conscience and culture of one people should be allowed to react directly upon other people without the intervention of governments. p. 132.

From a letter to Mildred Loomis (May 21, 1949)

Social reformers are divided into many movements, and each has its pro and con. None of these issues can be resolved under the existing political monetary system; which frustrates the operation of economic democracy, a process that can operate only by means of a true monetary system. If one tenth of the energy expended in attaining ends could be consolidated upon realizing the means, the world's problems could be quickly solved.

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