



Sovereign Order of Saint John of Jerusalem
* Knights of Malta *

Chancellor's Update

March
2022

The Hidden Tax – Inflation

Over the past century the US government has devalued the currency a number of times. We like to inform our readers that a quick review of how inflation can destroy a currency, so please consult the *Mises Institute* at (<https://mises.org>) entitled *The Cultural and Spiritual Legacy of Fiat Inflation* dated February 10, 2022 – 2:00 PM by Jorg Guido Holsmann. Mr. Holsmann gives the reader a quick lesson in economics. Here is an example:

“The notion that inflation is harmful is a staple of economic science. But most textbooks underrate the extent of the harm, because they define inflation much too narrowly as a lasting decrease of the purchasing power of money (PPM), and also because they pay scant attention to the concrete forms of inflation. To appreciate the disruptive nature of inflation in its full extent we must keep in mind that it springs from a violation of the fundamental rules of society.

“Inflation is what happens when people increase the money supply by fraud, imposition, and breach of contract, invariably it produces three characteristic consequences: (1) it benefits the perpetrators at the expense of all other money users; (2) it allows the accumulation of debt beyond the level debts could reach on free market; and (3) it reduces the PPM below the level it would have reached on the free market.

“While these three consequences are bad enough, things get much worse once inflation is encouraged and promoted by the state (fiat inflation). The government’s fiat makes inflation perennial, and as a result we observe the formation of inflation-specific *institutions* and *habits*. Thus, fiat inflation leaves a characteristic cultural and spiritual stain on human society. In what follows, we will take a closer look at some aspects of this legacy.

“Another point to be made: Among the most gruesome consequences of fiat money, and of paper money in particular, is its ability to extend the length of wars. The destructions of war have the healthy effect of cooling down initial war frenzies. The more protracted and destructive a war becomes, therefore, the less is the population inclined to support it financially through taxes and the purchase of public bonds. Fiat inflation allows the government to ignore the fiscal resistance of its citizens and to maintain the war effort on its present level, or even to increase that level. The government just prints the notes it needs to buy cannons and boots.

“This is exactly what happened in the two world wars of the 20th century at least in the case of the European states. The governments of France, Germany, Italy, Russia, and the United Kingdom covered a large part of their expenses through inflation. It is of course difficult to evaluate any precise quantitative impact, but it is not unreasonable to assume that fiat inflation prolonged both wars by many months or even one or two years. If we consider that the killings have reached their climax toward the end of the war, we must assume that many millions of lives could have been saved.

Jerusalem 1048-1291, Cyprus 1291-1310, Rhodes 1311-1523, Malta 1530-1798, Russia 1798-1907, U.S.A. 1908-

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“Many people believe that, in war, all means are just. In their eyes, fiat inflation is legitimate as a means to fend off lethal threats from a nation. But this argument is rather defective. It is not the case that all means are just in a war. There is in catholic theology a theory of just war, which stresses exactly this point. Fiat inflation would certainly be illegitimate if less offensive means were available to attain the same end. And fact is that such means exist and have always been at the disposition of governments, for example, credit money and additional taxation.

“Another typical line of defense of fiat money in wartime is that the government might know better than the citizens just how close victory is at hand. The ignorant population grows weary of the war and tends to resist additional taxation. But the government is perfectly acquainted with the situation. Without fiat money its hands would be tied up, with potentially disastrous consequences. The inflation just gives it the little extra something needed to win.

“It is of course conceivable that the government is better informed than its citizens. But it is difficult to see why this should be an obstacle in war finance. The most essential task of political leadership is to rally the masses behind its cause. Why should it be impossible for a government to spread its better information, thus convincing the populace of the need for additional taxes? This brings us to the following consideration: **Inflation and Tyranny!**

“War is just the most extreme case in which fiat inflation allows governments to pursue their goals without genuine support from their citizens. The printing press allows the government to tap the property of its people without having to obtain their consent, and in fact against their consent. What kind of government is it that arbitrarily takes the property of its citizens? Aristotle and many other political philosophers have called it tyranny. And monetary theorists from Oresme to Mises have pointed out that fiat inflation, considered as a tool of government finance, is the characteristic financial technique of tyranny.”

On January 25, 1936 the former Democratic Governor of NY, Al Smith, warned the American people that the Democratic Party was being betrayed. He said: “Now here is something that I want to say to the rank and file. There are three classes of people in this country; there are the poor and the rich, and in between the two is what has often been referred to as the great backbone of America, that is the plain fellow.

“That is the fellow that makes from one hundred dollars a month up to the man that draws down five or six thousand dollars a year. Now, there is a great big army. Forget the rich; they can't pay this debt. If you took everything they have away from them, they couldn't pay it; they ain't got enough. There is no use talking about the poor; they will never pay it, because they have nothing.

“This debt is going to be paid by that great big middle class that we refer to as the backbone and the rank and file, and the sin of it is they ain't going to know that they are paying it. It is going to come to them in the form of indirect and hidden taxation. It will come to them in the cost of living, in the cost of clothing, in the cost of every activity that they enter into, and because it is not a direct tax, they won't think they're paying, but, take it from me, they are going to pay it!”

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