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**Alois Rašin, International Remedy for Depreciated Currencies, 1921**

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Source: Herbert Hoover Presidential Library, Commerce Papers, Box 176, Folder Czechoslovakia 1921.

**An International Remedy for Depreciated Currencies**  
**By Alois Rašin\***

When the terms of the Armistice and of the Peace were still under discussion I recommended the making of an arrangement whereby by the Entente could exercise control over the German Imperial Bank and the Austro-Hungarian Bank so as to put an end to the issue of banknotes uncovered by commercial security. I considered such a measure essential for preventing the defeated states taking the opportunity of increasing the currency inflation and steering for bankruptcy by artificial methods. The precaution, however, was not incorporated into either the terms of the armistice or into those of peace.

In the exercise of my functions as Minister of Finance I did all I could to make the Austro-Hungarian Bank restrict the issue of unbacked notes, I refused recognition to the State Commissioner attached to the Bank and succeeded in compelling the Bank to admit Commissioners representing the Succession States. Our own Commissioner received strict injunctions to allow no uncovered banknotes to be printed. The Lamasch Government at Vienna desired to issue 2 milliard crowns worth of uncovered notes for the states which had previously formed part of Austro-Hungary. I resisted this proposal and pointed out that for such purpose the consent of all the Succession states was necessary. In spite of our protests the Bank issued those two milliards. I replied by taking over the control of all the branches of the Bank in Czechoslovakia. I forbade the advance of money on the War Loans, the Austro-Hungarian Bank having begun to make advances up to 75% of the nominal value of the 5  $\frac{1}{2}$  % War Loans at 5%: in other words to convert War Loans into currency and to advance 75 % of the face value at a time when the value of these loans had fallen to 60%, so that the person purchasing the new loan could mortgage 75 % and make a gain of 15 % of the nominal value.

In face of protests the Bank continued to issue notes for Austrian and Hungary with the obvious result that as our currencies were identical these banknotes came over to us and increased the inflation here. The Bank was not even content with merely printing existing values. It proceeded to introduce banknotes for 10.000 crowns and for 25 and 200 crowns which were printed only on one side So as to be produced with the greater rapidity. I refused recognition of these banknotes for the territory of the Czechoslovak Republic, and later when the banknotes wore stamped I declined to admit them to stamping.

I took over the control of the branches of the Austro-Hungarian Bank on Czechoslovak territory and by an enactment of the 10th April 1919 the State was empowered to take over the stamped notes and replace them by Czechoslovak notes. The amount of these Czechoslovak notes was strictly limited: anything issued over and above the limit being required to be covered by commercial security or gold or silver.

Meanwhile a Bank of Issue was created which is prohibited by law from lending to the State and which is administered by a committee absolutely independent of the State. The amount of commercially uncovered banknotes is being reduced by a Tax on Wealth, paid directly to the Bank Office/the State Bank of Issue/ which at once destroys an equivalent amount in banknotes. Furthermore at the time the banknotes were stamped the sum of 5160 million crowns in notes was withheld as a compulsory loan. These have not been returned to circulation, and the loan is being paid off by the Wealth Tax. According to the Bank Office Statement of 30th September last the amount has already been reduced to 2256 millions.

I am tracing thus the history of efforts made Czechoslovakia to maintain the standard of the currency in order to show that there is a substantial reason why the Czechoslovak crown compares so favourably with the depreciated currencies in the surrounding countries.

In 2 ½ years Czechoslovakia has withdrawn from circulation, 568 million crowns of unbacked notes, and that by voluntary payments of the Wealth Tax. As this tax has only just begun to be assessed the reduction of the whole amount of unbacked banknotes will proceed very rapidly. The amount per head of population of these notes in Czechoslovakia is only 851 crowns, whereas in Poland the figure is 6900 marks, in Austria 11.666 crowns, in Germany 1613 marks, in Hungary 2,800 crowns. There is thus in Czechoslovakia, an industrial country, the smallest inflation of all and it is difficult to understand why the value of the Czechoslovak crown in the international market has fallen so low. The cause of the present state of affairs can only be attributed to the systematic multiplication of paper money by the surrounding states and the fear—which is quite unfounded—that Czechoslovakia too will be drawn into this maelstrom of paper currencies.

To come to an international solution of the currency problem, it seems to me that the disease cannot be cured at a stroke but only by degrees. It springs from the fact that not enough is produced to meet the demands of a higher standard of life especially on the part of the broad masses of the people. We have been impoverished by the War, but so far the general public has failed to grasp what is the one and only possible solution of the post-war crisis, namely, that more work must be done than before the War and that much more economy must be exercised in order that the means of production may be brought up to a proper standard.

It is necessary, however, to do away with the disorder existing in matters international and to introduce good order. We need an international Union of States which would pledge themselves to issue no banknotes for the purpose of covering state expenditure,

which would contrive some plan of restricting inflation, of regulating the existing national debts in paper monies which would subordinate themselves to the control of the international Union in respect of the obligations which they undertook on entering the Union, that is the obligation to support each other by credits and by protecting their currencies against international speculation and against an unjust diffusion of distrust. Possibly such a Union could undertake the calling together of its members to supervise budgets, to determine upon principles of economy for the individual budgets and perhaps also to come to agreement on measures and laws to be adopted with a view to promoting production to creating a uniformity in social legislation and similar matters.

All this, however, would be the second stage. The first essential is to get rid of the disorder arising from the paper circulation and which stands in the way of every attempt at a betterment of economic conditions.

The countries with undepreciated currencies need this just as much as those with depreciated currencies. The issue of paper currency in Germany to cover the deficit in the State finances and to avoid the imposition of taxes and increase in the railway tariffs has had the effect of making German goods cheaper and enabling them to compete with English manufactures: the fall of the mark has been the protection against the import of English goods into Germany and an export premium on goods exported from Germany. The German dumping system was only made possible by the inordinate printing of banknotes for the State.

We in Czechoslovakia have had to suffer doubly from this: our raw materials /cotton, wool, hides/ we have had to import from countries with high-value currency, while we export our products to countries with currencies inferior to our own, /Hungary, Yugoslavia [sic], Roumania, Poland/.

In some countries the issuing of uncovered notes has gone on to such an extent that without forcible measures, without some kind of liquidation the situation perhaps cannot be remedied. At all events to leave things to go on as they are would ultimately result in a total repudiation of paper money end in an extraordinary social convulsion.

But in countries where such issuing of banknotes had not taken place, where on the contrary the financial burdens arising from, the War have been taken over, or in the countries where only moderate use has been made of the printing press, the Union suggested above could achieve very considerable results by the exercise of its control, by standing as a sort of surety for the manner in which the banks of issue are conducted and being responsible for the correctness of their balance sheets—for in the case of paper currencies, confidence is a great factor in the determination of rates of exchange. In proportion to prices prevailing in Czechoslovakia the Czechoslovak crown has a purchasing power in this country of at least 12 Swiss centimes, but the rate of exchange as fixed at Zurich is only 6 centimes; for nobody is sufficiently well acquainted with our new State, while the chaos of inflation existing in all the countries surrounding us tends to increase the fears with regard to our money. If, however, the Union investigated the home purchasing power of the currency and provided the means of keeping the

international rate of exchange at the level of this purchasing power at home, we should arrive at a stabilization of currencies and at a determination of their relative values. And for the moment that is all we need.

Each state by its own industry, economy and promoting of its national wealth would, by its own efforts, have to concern itself with the improvement of this purchasing power and with the raising of its rate of exchange to the same level. This is all the help that each nation needs from the stronger to prevent its being driven by the fluctuations of the exchanges into a mania for speculation, to enable it to calculate and not gamble, to enable it to believe that by hard and earnest work it will issue from the post-War crisis and arrive at prosperity, a genuine prosperity—and not a paper one.

\*Brief Biography of Alois Rašín  
By T. Mills Kelly

Born: 1867  
Died: 1923

Alois Rašín was the man most responsible for the Czechoslovak economy's successful emergence from the chaos of the collapsing Habsburg state. Before the war Rašín had been a prominent member of the Young Czech party led by Karel Kramar (after 1918 the National Democrats), serving in the imperial Reichsrat. During the war he was tried for treason along with Kramar and sentenced to death. Pardoned by Emperor Karl in 1917, he resumed his political activities upon his release from prison and was a leading member in the National Committee in Prague. Serving as Minister of Finance in the first Czechoslovak government and again in 1922, he pursued a rigorous policy that demanded sacrifice from individual citizens in the form of wealth taxes and the expectation that each citizen would work hard at low pay until such time as the economy was on a firm footing. Rašín paid the ultimate price for the unpopularity of his stringent fiscal policies when he was assassinated by a member of the Communist party in 1923.

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