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Karl Helfferich and Rudolf Hilferding on Georg Friedrich Knapp's *State Theory of Money*: Monetary Theories during the Hyperinflation of 1923

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Abstract:
The monetary ideas of Georg Friedrich Knapp have recently resurfaced in the context of the Modern Monetary Theory whose representatives see themselves in his tradition. The historical debate on Knapp's "State Theory of Money," which divided opinion when it was first published in 1905 as well as during the period of German inflation that peaked in 1923, is therefore of particular interest. Knapp describes money largely from a legal perspective, labelling it a "creature of the legal order". The principle "Mark = Mark" reflects his nominalistic approach. However, he opposed monetary state financing, and favoured balanced governmental budgets. One of his students, Karl Helfferich, was the most influential monetary theorist in the German Reich during the first decades of the 20th century. In defining Knapp's view as an ultimate ideal that might be realised at some point, and his own metallist approach as a practical necessity, he tries to reconcile his teacher's nominalistic theory on the one hand with his own gold currency-principles on the other.The monetary theory of the Marxist Rudolf Hilferding was eclectic, but he moved closer to a nominalistic approach after studying Knapp's theory. During inflation, Helfferich, a representative of the Balance of Payments Theory, and Hilferding, more of the Quantity Theory of Money, also held opposing views in the public debate on the monetary reforms required. The relationship between the three authors was highly complex. While Helfferich and Knapp were personally close, they were far apart in their theories although Helfferich tried to conceal this fact. Hilferding and Helfferich, meanwhile, held similar views on some practical points, such as the necessity of a gold-based currency, but clashed vehemently on a personal level.

Key Words: Helfferich, Hilferding, Knapp, State Theory of Money, Hyperinflation, Modern Monetary Theory
Classification J.E.L.: B31, E31, N14

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Aim and Structure

Through Modern Monetary Theory (MMT), which is part of his tradition, Georg Friedrich Knapp returned to the focus of the current monetary discussion, as it had been at the beginning of the twentieth century after he had published his *State Theory of Money* in 1905. This phase also includes the German Hyperinflation, which peaked in 1923.

The question of the causes of hyperinflation is currently under discussion again. Randall Wray, a major representative of MMT, rejects the Quantity Theory of Money to explain hyperinflation in a blog post in response to Doug Henwood: “He confuses causation and correlation. Severe supply constraints can push up prices, increasing the amount of money that needs to be created both publicly and privately to finance purchases. Tax revenues fall behind spending so a deficit opens up as spending tries to keep pace with inflation. The moneyately stock is a residual and it will grow rapidly with hyperinflation. That does not mean it is the cause. Mitchell has closely examined the hyperinflation cases from the MMT perspective."[2]

William Mitchell, another MMT representative, writes: “If we think about the Weimar Republic for a moment, the problems for them began long before the hyperinflation, which really went off in 1923. (...) for historians, you will recall that the French and Belgian armies then retaliated after the German default and took over the industrial area of the Ruhr - Germany's mining and manufacturing heartland. The Germans, in turn, stopped work and production ground to a halt. The Germans kept paying the workers in local currency despite limited production being possible and you can imagine that nominal demand quickly started to rise relative to real output which was grinding to a halt. The crunch came when the export trade stalled and the only way the German Government could keep paying their treaty obligations etc. was to keep spending. The inflation followed. But think carefully about the causality here – it was not a normal situation at all where a sovereign government was trying to finance the saving desire of the non-government sector and keep employment and output levels high."[3] Mitchell thus sees the high expenditure with declining production during the “Ruhrkampf” as the main reason for the hyperinflation of 1923.

The discussion about the causes of hyperinflation, the mistakes in the contemporary monetary theories, and the role of Georg Friedrich Knapp have already taken place. However, considering MMT, it is helpful to recall the arguments of this discussion. Karl Helfferich and Rudolf Hilferding are particularly appropriate for this project, as they dealt intensively with Knapp, and were political opponents during the search for a solution to inflation.

Knapp’s *State Theory of Money*

Biography[4]

Georg Friedrich Knapp was born into an academic family in Giessen in 1842. His father and his uncle (Justus Liebig) were chemistry professors. He studied Political Science in Munich, Berlin, and Göttingen and wrote his dissertation on Johann Heinrich von Thünen in 1865. In 1867, he became head of the statistical office in Leipzig and remained there until 1872, when he took over a professorship in Strasbourg, which had just been annexed to the German Reich. He remained there until 1919. During this time, Karl Helfferich was his student and received his doctorate from him. Knapp died in 1926 in Darmstadt. He was a co-founder of the Verein für Socialpolitik and can be counted among the Younger Historical School. His daughter, Elly, later married the first Bundespräsident, Theodor Heuss.

His scientific work can be divided into three phases: first statistics, then agricultural history, and, finally, monetary theory.[5] “Thus, in the three successive epochs of his scientific life, which he separated with systematic cleanliness, Knapp always gave a decisive turn to the three great methods of our science: statistical, historical, deductive/conceptual.”[6]

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2 https://www.nakedcapitalism.com/2019/02/randy-wray-response-doug-henwoods-trolling-mmt-jacobin.html
3 http://bilbo.economicoutlook.net/blog/?p=3773
4 Greitens (2019) p. 273ff; Braeuer (1979) p. 152 f; Trautwein (2003) p. 167ff; Schefold (1987) p. 54ff
5 Gothein (1922) p. 6
6 Gothein (1922) p. 7 (own translation)

Knapp was an apolitical person.[7] He "is the only one who has not intervened in the politics of the day with a word–but also the only one who has not made a compromise, neither as a teacher nor as a researcher, nor as a writer. His will was not directed at wide effect but at lawful formation."[8]
If Knapp expressed himself politically, he took a conservative position. For example, he declared himself a supporter of the gold currency and encouraged Helfferich in his fight against bimetallism together with Ludwig Bamberger. Knapp had started as a liberal, who became increasingly conservative, primarily through his agricultural studies.[9]

The State Theory of Money

The State Theory of Money was published in four editions (1905, 1918, 1921, and 1923) and in 1924 as a translation of the fourth edition into English by the Royal Economic Society. Knapp thanks John Maynard Keynes for supporting the translation. Keynes himself quotes Knapp on the first pages of his *Treatise on Money* (1930).
In the preface to the first edition of 1905, Knapp describes the background of his book. During his studies in Munich, he listened to Friedrich von Hermann's (1795–1868) lectures on money, which preceded Menger with his analysis of money as a good. Menger was to become Knapp's opponent in certain aspects. Knapp mentions Karl Helfferich and Philipp Kalkmann and says that Helfferich "outperformed him tremendously" in the art of the heuristic (as opposed to theoretical) approach. Knapp first presented his ideas at lectures in Berlin in 1895 and began writing the book in September 1901.[10]
Ironically, Knapp apologizes for not being able to emphasize the merits of his theoretical opponents (e.g., Richard Hildebrand, Karl Knies, or Ludwig Bamberger) sufficiently, while clearly opposing the monetary orthodoxy influenced by Knies.[11]

Nature of Money

Knapp's central thesis and the first sentence in his *State Theory of Money* reads: "MONEY is a creature of law. A theory of money must therefore deal with legal history."[12] The whole book explains this thought and becomes increasingly detailed. Knapp is concerned with overcoming a metallism that is regarded as backward: "The natural man is a metallist; the theorist, on the other hand, is forced to become a nominalist."[13] His writing is directed against a "naive" metallism to present the superiority of nominalism.[14]
"Proclamatory means of payment"[15] have a value independent of the material value, such as stamps or theater tickets, for example. Knapp speaks synonymously of "chartal means of payment", by which he means tokens. "Perhaps the Latin word 'Charta' can bear the sense of ticket or token, and we can form a new but intelligible adjective–'Chartal'." Our means of payment have this token, or Chartal, form. Among civilised peoples in our day, payments can only be made with pay-tickets or Chartal pieces."[16] The substance of the token only becomes an accompanying factor, but is no longer essential. What is essential is the description of the pieces in the legal system. Money is a convention, and in the modern state this convention is secured by the legal system.
Therefore, all "proclamatory means of payment" must be morphic, i.e., they must be provided with legally relevant symbols. "When, however, chartality has developed, the description of the stamped pieces gives a new method of recognising the means of payment, for the State says that the pieces have such and such an appearance and that their validity is fixed by proclamation. Here, therefore, it is

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7 Williamson (1971) p. 14
8 Geleitwort (1922) p. 2 (own translation)
9 Lumm (1926) p. 28; Schmidt-Essen (1922) p. 14; Brentano (1922) p. 4
10 Knapp (1905) p. Vff
11 Knapp (1905) p. V, explained in Gothein (1922) p. 6
12 Knapp (1924) p. 1; in German „Das Geld ist ein Geschöpf der Rechtsordnung" meaning exactly: money as a creature of the legal order, not of law.
13 Knapp (1924) p. 10
14 Brandl (2015) p. 58
15 Knapp (1924) p. 31
16 Knapp (1924) p. 32

not the statement of a specific material, but the description of the shaped pieces, which makes the means of payment recognisable."[17]
Only then does Knapp introduce the term "money," which he restricts exclusively to proclamatory means of payment: "Money always signifies a Chartal means of payment. Every Chartal means of payment we call money. The definition of money is therefore 'a Chartal means of payment'."[18] The characteristics of debts as well as the decoupling of material properties makes the means of payment become money when there is a shortage.
The central concept to it is the "Rekurrente Anschluss."[19] Money is a chartal means of payment and serves the repayment of debts. "The State therefore treats the older debts as if the unit of value, a pound of copper, were only a name by the use of which the relative amount of the debt was indicated, and which does not mean that in reality copper was to be delivered. The State reserves to itself the right to order that 'a pound of copper' should now mean that a given weight of silver was to be paid. At the moment of transition from copper to silver, the State treats existing debts as nominal debts and immediately adds what other material, and how much of it, shall in future represent the unit of the means of payment. While, therefore, most people believe that in the case of previously existing debts the State recognises the continuance of the former means of payment, legal history shows that all the State recognises is the relative amount of the old debt, and says that it will alter the means of payment from time to time. Or, in actual fact, the State says nothing, but acts; the legal historian, however, calls the State's action frankly by its proper name."[20] After a currency reform, the exchange ratio is settled and the debts are then to be paid in the new means of payment. Confidence in the validity of the future currency is based on the legal obligation to accept it. In a currency reform, the old debts are legally connected to the new currency without considering an intrinsic value (e.g., precious metal).

Value of Money

The State Theory of Money does not contain a theory of monetary value. "A description of administrative law, as far as money is concerned, has very little to do with the question of the value of money."[21]

In the first edition Knapp explicitly rejects the Quantity Theory of Money:[22] "Here we will not discuss the quantity theory, if interpreted in the sense that the money in one country is diminished and increased in the other, and that this re-establishes the parity. Such an idea is vulgar ignorance."[23] However, it sounds rather as if Knapp here means the price-specie-flow-mechanism,[24] i.e., the gold automatism in the gold standard.[25]

Otherwise there is only little concrete information on the monetary value in the first edition: "The metallist defines the unit of value as a given quantity of metal. (...) The chartalist defines the unit of value historically. It therefore becomes a notion which derives its meaning from a particular pay-community in which it finds itself."[26]

At the negotiations of the "Verein für Socialpolitik" in Vienna in 1909, which became famous for the Werturteilsstreit, Knapp responded to a lecture by Friedrich von Wieser on the value of money: "Well, gentlemen, what the public understands by the value of money, in the sense of a man who thinks of his fixed income, is nothing other than the statistics of the prices not of individual goods, but of certain complexes of goods selected by him."[27] Knapp rejects a determination of the value of money through the price of goods.

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17 Knapp (1924) p. 36f
18 Knapp (1924) p. 38
19 This term is, astonishingly, not translated into English in the 1924 translation, but only circumscribed.
20 Knapp (1924) p. 14
21 Knapp (1918) p. 434f (own translation), section omitted in translation, see comment by the translator (Knapp (1924) p. x)
22 Bortkiewicz (1906) p. 1314
23 Knapp (1924) p. 257
24 Greitens (2019) p. 211ff
25 Knapp (1905) p. 246
26 Knapp (1924) p. 302
27 Knapp (1910) p. 561 (own translation)

"The value of the money, in this sense, is only a subjective solution for the one who makes this calculation, based on his own observation."[28] Since a general inflation rate cannot be determined, these price statistics cannot claim to determine the value of money. "May the amateur call this value of money. Mr. von Wieser is therefore right when he says that *The State Theory of Money* has done nothing to explain the problem of the value of money. Certainly not! But all the other theories of money do nothing about it either, as long as monetary value is understood to mean the statistical problem described above."[29] It ends with a polemic against metallism: "Use as much metal in the monetary system as you want, that doesn't matter to me, but what I would like to call the pathologically metallism is the opinion that the unit of value can be defined as a quantity of metal."[30]

The second edition of *The State Theory* of 1918, toward the end of the war, contains "Appendices and Additions."[31] First Knapp describes the existing monetary system: "Our monetary system is now very similar to that which existed in England at the time of the Napoleonic wars."[32] Thus, Knapp establishes a relationship with Bullion Controversy and places himself in an anti-Bullionist tradition.

In another section, he also deals with the value of money:[33] "Our economists mean (…) something completely different when they talk about the value of money (…). It is about 'the prices', as it is commonly expressed most comprehensively. More precisely, it is statistics of prices and conclusions drawn from them."[34]

Knapp repeats his 1909 criticism of price statistics for defining the value of money: "The economist thinks of a certain good, examines the prices paid for that good in the country and in the period in which it was paid, and determines the average price of that good by means of statistics. (…) Now comes the crucial step: our economist reverses the relationship that was statistically found between that good and the money (…). But let us note and record: this way of determining the value of money is based on a reversal of the mutual relationship between goods and means of payment. What were previously goods is thought of as means of payment and what were previously means of payment is thought of as goods."[35]

Knapp rejects the measurement of the value of money with price indices as circular reasoning.[36] "The economist may carry out price investigations and confuse the concepts of goods and money. It is then only a very emphatic way to inform the reader about changes in average prices by saying."[37]
"So, our statistician has switched the relationship that exists between goods and money: he places the goods in the place where the money stood; and he places the money in the place where the goods stood. (…) He hides the fact that what matters is whether the complex of goods is accepted as authoritative and pretends that this is beyond doubt; and he further assumes that his 'value of money' is the same as the purchasing power of the piece. But the reader has forgotten that he must acknowledge the complex of goods as authoritative (…). Thus, index numbers cannot say anything about the legal quality of money, and therefore do not belong in *The State Theory of Money*. (…) They show that prices of goods can change, which nobody doubted."[38]
He contrasts this view with a legal regulation: "This approach does not belong in *The State Theory of Money*. The State presupposes–in all cases where prices are concerned–that the unit of value which is legally customary is used and that payments are made in currency. What results from a statistical price investigation, for example, has not the slightest legal effect."[39]

Inflation in the sense of price increases, which are not to be equal with reductions in the value of money, is explained by real factors: "At the outbreak of war, the State buys all attainable horses; it

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28 Knapp (1910) p. 561 (own translation)
29 Knapp (1910) p. 562 (own translation)
30 Knapp (1910) p. 562 (own translation)
31 This section has been left out in the translation into English (Knapp (1924) p. x).
32 Knapp (1918) p. 433 (own translation, section omitted in translation Knapp (1924))
33 See Knapp (1918) p. 434-445
34 Knapp (1918) p. 435 (own translation, section omitted in translation Knapp (1924))
35 Knapp (1918) p. 436 (own translation, section omitted in translation Knapp (1924))
36 Knapp (1918) p. 440
37 Knapp (1918) p. 438 (own translation, section omitted in translation Knapp (1924))
38 Knapp (1918) p. 439f (own translation, section omitted in translation Knapp (1924))
39 Knapp (1918) p. 437 (own translation, section omitted in translation Knapp (1924))

buys all automobiles that it finds in private homes; it orders endless masses of ammunition; it employs all weapon factories through new orders; it uses all means of transport, especially the railways; it buys food for millions of soldiers. The State pays wages and salaries to the troops deployed during the war. Can it do all this without paper money? Certainly not. And if it does, does it not disturb all existing production conditions? And further, where does the State get all the men it calls up from? It withdraws them from commercial life: the miners step out of their service, the factory workers become soldiers, the workers of small industry are called up; the farmer leaves his farm, the farm workers carry weapons. The factory owner, the craftsman, the merchant, in short, all employees are withdrawn from their former activities and stand in the field. The whole civil life is undermined, and should 'the prices' there remain undisturbed? But above all: should the creation of paper money be to blame for this? War forces us to revolutionize our accustomed bourgeois life, and paper money is only the means to carry out the inevitable revolution. It is a strange limitation to accuse only paper money. The far more important task of the economist would be to describe the nature of the disturbances and to examine the paths of the finance."[40]

In the third edition of 1921, these statements on the value of money at the beginning and end of the "Appendices and Additions"–chapter were slightly extended, without changing the argument. Knapp thus reacts in general to the ongoing discussions on this topic and is partly polemical. This extended form of 1921 then appears unchanged in the fourth edition of 1923, despite the dramatic events of these two years.

This focus to the legally unchanged repayability of nominal debt is ultimately a refusal to recognize the inflation problem. Melchior Palyi writes: "The assumption that the recipient of the money would have no interest in valuing the pieces, since he could give them in payment as debtors to the same 'value' for which he receives them as creditors, can at best be claimed for in a 'static' national economy, for an economic body with completely and permanently unchangeable price formation and income distribution."[41]

The acceptance of the Quantity Theory of Money for chartalism is the logical consequence, even if, for example, production gaps can explain deviations.[42] Palyi already points to the connection: "What is striking about Knapp's argumentation is the relationship to the old Quantity Theory of Money of the 17th and 18th centuries. This theory was also 'nominalistic' and saw money, regardless of the substance, as a token for goods and services, i.e., the exact opposite of a commodity; but from this–logically–instead of eliminating the value of money problem, a very decisive statement had to follow on the same: the demand for strict proportionality between money supply and goods prices. One would think that any monetary nominalism leads consistently to the Quantity Theory of Money (…). This consequence, the Quantity Theory of Money, has escaped by the special nature of his nominalism. He sees the nature of money (…) not in the token of marketable goods–which is legally senseless and, moreover, at most permissible if one takes 'token' in the quite indefinite sense of 'means of exchange'–but in the 'charter', i.e., token (or rather: document), i.e., in the 'proclamatory' value, while the goods are valued according to the 'traffic judgment'."[43]

Conclusion

Knapp presents a monetary theory that is primarily legal in nature and defines money as a creature of the legal order. Knapp derives this theory from his own terminology to make an abstract and comprehensive systematization of money forms.[44]

The principle "Mark = Mark" determined the legal and economic life in the German Reich into the inflation period and was based on the understanding of a "legal tender," i.e., these means of payment, irrespective of whether they were redeemable in gold or not, had to be accepted to settle any "Mark" obligation.[45] Behind this is a dispute that can be traced back to the Middle Ages: in England, a nominalistic understanding of money had prevailed whereby it is not relevant for a domestic credit

40 Knapp (1918) p. 444f (own translation, section omitted in translation Knapp (1924))
41 Palyi (1922) p. 55 (own translation)
42 Greitens (2019) p. 116f
43 Palyi (1922) p. 52ff (own translation)
44 Trautwein (2003) p. 170
45 Pfleiderer (1978 Mark) p. 70f

agreement if the currency standard changes. A credit agreement referred to the nominal value and not to the intrinsic value.[46] On the other hand, in continental Europe the metallistic understanding of money was still valid. The attitude that the metal value of the coins and not an abstract value must be repaid on a loan, also after a currency reform, dominated the courts. Money was understood as metal with an intrinsic value. In this respect, Knapp drew only the consequences from the relative stability of the monetary order in the German Reich.[47] This approach may have been attractive for economists with a strong legal background, especially in Germany.[48]

Knapp sharpened his theory to achieve his goal of overcoming metallism. “A theory must be pushed to extremes or it is valueless."[49] The development toward nominalism seems natural and self-evident to him. His theory, however, triggered an intensive and long-lasting discussion.[50]

In the 1909 *Handwörterbuch der Staatswissenschaften*, directly after the third version of the famous money essay by Carl Menger, follows Knapp’s entry “Geldtheorie, staatliche .”[51] Knapp distances himself from the far-reaching political consequences resulting from his theory: “It must also be said for the peace of mind: it is quite far from *The State Theory of Money* to recommend the so-called paper money economy.”[52] He emphasis the need to guarantee a stable exchange rate[53] and to keep the State budget balanced: “We are of course of the opinion that the order in the State budget–the balance of income and expenditure–is the orderly State and that this order, if it is destroyed by force majeure, must be re-established.”[54] “The evil then lies not in the paper nature of the means of payment, as the metallists believe; but in the decline of State finance.”[55]

Knapp was aware of the dangers associated with his theory. “If the State does not make payments, to which it has committed itself (…), then it undermines the legal system it is called upon to maintain.”[56] Knapps student Alfred Schmidt-Höpke (pseudonym: Alfred Schmidt-Essen) (1891–1965) says: “It is not easy to outline Knapp’s position in the history of monetary theory because there is no clear line of development to be observed that leads to Knapp through older literature.”[57] Schmidt-Höpke’s overstates given Aristotelian nominalistic ideas, the discussions mentioned above in the Middle Ages, the anti-Bullionists, and also in contrast to authors like Adam Müller, even if Knapp stands out in his development.
Joseph Schumpeter wrote: “that its influence on monetary science in Germany has been, in the main, an unfortunate one. (…) it also shows, once more, the strength of this remarkable man, who convinces so many of what he could not prove and often fascinated even where he did not convince.”[58]

Karl Helfferich on *The State Theory of Money*

Biography

Karl Helfferich was born in 1872 in Neustadt an der Weinstraße as the son of a textile manufacturer. He studied law and political science from 1890 to 1894, first in Munich and then in Strasbourg. He completed his doctorate in 1894 with the topic *Die Folgen des deutsch-österreichischen Münzvereins von 1857* under the supervision of Georg Friedrich Knapp. This resulted in a close personal relationship between the two.[59] “I [Helfferich] owe an infinite amount to his stimulations: they have been decisive for all my scientific work, even if the paths I have taken, with the difference of

46 Greitens (2019) p. 113
47 Pfleiderer (1978 Mark) p. 71
48 James (1981) p. 852f
49 Knapp (1924) p. VIII
50 Trautwein (2003) p. 172
51 Knapp (1909) p. 610
52 Knapp (1909) p. 612 (own translation)
53 Knapp (1909) p. 611
54 Knapp (1909) p. 612 (own translation)
55 Knapp (1909) p. 612 (own translation)
56 Knapp (1906) p. 387f (own translation)
57 Schmidt-Essen (1922) p. 13
58 Schumpeter (1926) p. 514
59 Williamson (1971) p. 9ff, 16f; Helfferich (1922) p. 8

temperament and aptitudes, have separated me so much from those of Knapp that he described himself to me in one of his letters as 'a chicken hatching a duck'."[60]
Helfferich supported Ludwig Bamberger from 1895 onwards–very polemically and with personal attacks–in the fight against the demands of the agrarians for a silver-gold double currency.[61] After Bamberger's death in 1899, Helfferich became the central advocate for the gold currency and attacked Otto Arendt in particular, with whom he also stood at trial.[62]

With the work *Die Reform des deutschen Geldwesens nach der Begründung des Deutschen Reiches* (two volumes, 1898) he habilitated at the University of Berlin in 1899 and was appointed as a currency expert in 1901 to the Colonial Department of the Auswärtige Amt focusing on the monetary conditions in the German colonies.[63]

In 1906, he moved to Constantinople as director of the Anatolian Railway Company, whose main shareholder was Deutsche Bank. Arthur (von) Gwinner then brought him to Deutsche Bank in 1908 as a board member.[64]

Helfferich resigned from these duties when, on January 31, 1915, he took over as Staatssekretär of the Reichsschatzamt and took charge of State finance, acting as "Finanz-Ludendorff" (Karl Kautsky) during the war. For the financing of the war, Helfferich rejected taxes and focused on bonds. This strategy led to the inflationary development, especially when in autumn 1916 bonds were no longer sufficient to cover the expenditures due to a lack of demand; the issue of banknotes was increased considerably. Inflation was dampened during the war by strict price controls.[65]

On May 22, 1916, Helfferich took over the leadership of the Reichsamt des Innern and became Vice-Chancellor at the same time. After the fall of Reichs-Chancellor Bethmann-Hollweg he remained in office for a short time, but had to give up his duties in November 1917.[66]

In 1919, he joined the Deutschnationalen Volkspartei (DNVP), rallied against the Weimar coalition, and spread the story of the "Dolchstoßlegende." The main targets of his attacks were Walther Rathenau, Matthias Erzberger (especially in the book *Fort mit Erzberger* from August 1919), and Joseph Wirth. Thus, he helped to create the atmosphere in which the murders of Erzberger (1921) and Rathenau (1922) could take place.[67]

From 1920, Helfferich was a member of the Reichstag and the central figure of his party. In the same year, he married the fourth, widowed daughter of Deutsche Bank's founding director Georg von Siemens, Annette. Based on preliminary work by others, he wrote a three-volume biography of Siemens (1921/23). In 1924, he died in the Bellinzona railway accident.[68]

During his lifetime, he wrote an enormous amount of political and scientific works. Even admirers saw his "sharp, witty, and relentless polemics" and his lack of willingness to compromise.[69] Carl Fürstenberg, owner of the Berliner Handels-Gesellschaft, wrote about him: "I can't say that I would have liked his personality very much."[70]

Monetary Theory of *Das Geld* (1923)

Das Geld was published in six editions (1903, 1910, 1916, 1919, 1921, and 1923). Helfferich began writing it during his time as a Privatdozent, but all editions were published while he was working outside the academic world. In 1903, in the first edition, *The State Theory of Money* had not yet

60 Helfferich (1922) p. 10 (own translation)
61 Wahrmund (1938) p. 53
62 Williamson (1971) p. 19ff, 33ff, Lumm (1926) p. 20ff
63 Williamson (1971) p. 30ff, 60ff
64 Williamson (1971) p. 78ff, 87ff
65 Williamson (1971) p. 121ff, 141ff
66 Williamson (1971) p. 152ff, 247ff
67 Williamson (1971) p. 288ff, 328f
68 Williamson (1971) p. 230ff, 343f, 401
69 Lumm (1926) p. 138 (own translation)
70 Fürstenberg (1961) p. 542 (own translation)

appeared, so Helfferich included it in the 2nd edition. The 6th edition was supplemented by the topic of hyperinflation. In 1927 a shortened translation into English was done.[71]
The book focuses exclusively on currency issues. Helfferich had announced that there was to be a second volume on credit and banks, but it was never written.

Das Geld was the German-language standard book on monetary issues at the beginning of the twentieth century, the "first major German monograph on money."[72] It is from this book that a particular influence and the necessity of a historical view on monetary theory are derived. The following description is based on the 6th edition.

History of Money

Helfferich begins with a historical perspective and explains the origin of money from the division of labor and the development of private property.[73] With the first forms of money, metal money, "the line of demarcation between money and economic goods is not fixed, but is completely variable. A concrete article which in coin form functions to-day as money can at any time be deprived of this function."[74] "Such kinds of money as paper money, which cannot fulfil any but the monetary function, can exist only under conditions which obtain in highly developed economies with fully evolved legal systems, and it is at once seen that the separation between money and economic goods, as we know it to-day, could only result from a long process of development."[75]
But even the early "minting of coins was, from the earliest days, so closely connected in the public mind with the power of the State that it was always regarded as an essential attribute of sovereignty, and the history of the exercise of this power reflects the general lines of development of State authority itself."[76], and the development of State power was also reflected in the monetary system. It was not yet possible to mint the coins uniformly, so that this similarity could only be achieved "by laying it down that coins of the same kind could in every respect be substituted one for the other. The legislature thus assigned to coins a definite 'currency' or validity which purposely took no account of differences and changes in the fineness of the individual pieces."[77]
Paper money no longer has its own use value, "Paper currency, however, is utilisable only as money. As a commodity it is worthless. It is the pure embodiment of monetary functions."[78] "Thus money became a legally independent entity. (…).The original relationship between metal and coin appears completely reversed: while initially the metal content was the given and the coin form was only a certification of this metal content, now the coin and the unit of account originally derived from it appear as the given, and the State determines and changes its metal content at will.(…) Knapp characterizes this decisive development with the twist: The morphic means of payment received 'proclamatory value'. (…) By seeing the decisive twist in the morphic means of payment receiving proclamatory value, Knapp also admits that 'proclamatory value' is only possible where 'morphic means of payment' already exist. (…) Knapp contradicts himself if he wants to acknowledge a nominality of the debt already in autometallism. The coin was the starting point for the entire face value of debt."[79]

Helfferich finds it necessary to position himself on this point once again in a footnote: "If in the above explanations the metal content is assumed to a certain extent to be the natural basis of the value of coinage, then the author is therefore not a 'metallist' in the Knapp sense, i.e., he is (…) by no means of the view that the monetary unit is 'real defined' by the metal content of the coin representing it (…). The above representation is purely historical in nature."[80]

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71 Williamson (1971) p. 42, 45
72 Winkel (1980) p. 8 (own translation)
73 Helfferich (1923) p. 8
74 Helfferich (1927) p. 2
75 Helfferich (1927) p. 2
76 Helfferich (1927) p. 75
77 Helfferich (1927) p. 30
78 Helfferich (1927) p. 78
79 Helfferich (1923) p. 34f incl. footnote (own translation), translation is incomplete in Helfferich (1927) p. 31
80 Helfferich (1923) p. 51 (own translation), omitted in translation in Helfferich (1927)

For Helfferich, the development indicates a step toward paper money: “One need only point out that such kinds of money as paper money, which cannot fulfill any but the monetary function, can exist only in conditions which arise in highly developed economies with fully evolved legal systems, and it is at once seen that the separation between money and economic goods, as we know it today, could only result from a long process of development.”[81] “Only when this separation of money from its substance is complete is the evolution of money at last at its ultimate goal."[82]

Nature of Money

Helfferich defines, in the tradition of Karl Knies, money by its functions. He describes the function as unit of account as a consecutive function of the function as medium of exchange,[83] and thus–in contrast to Knapp–subordinates it. “Menger is right in so far as he rejects all attempts to define the concept of money as an enumeration of all the various functions which money fulfils or can fulfil. But his theory, which regards the function of a medium of exchange as the only essential function of money, does not hold water when tested by the above analysis of the processes of economic intercourse."[84]

Helfferich first of all takes up Knapp’s position: “Obviously this is so in the case of paper currencies, for since paper notes, which in substance are quite valueless, are accepted in exchange for other objects of economic intercourse, it is only because legislation has given them the power of discharging money debts; because they can or must be used for payments to the State; and, finally, because legal decisions, in so far as they are expressed in terms of money, recognise or establish these notes as money. Anyone with a claim enforceable by law must submit to the conditions which the law lays down in regard to the contents and circumstances of the discharge of his claim."[85]

Helfferich sees in paper money –besides the convenience –the advantage of being able to ensure a higher elasticity of the currency supply.[86] “The State can exercise greater arbitrary powers in the issue of paper money of all kinds than it can in the issue of metallic currency, which is dependent on the production and movements of the precious metals Thus it would at first sight appear that this provides the means of systematically adjusting the supply of money to the demand for it."[87]

However, Helfferich also distances himself from Knapp: “Money is not a legal institution in its origins, but an economic institution.(…) If Knapp comes to the conclusion from this thesis that ‘a theory of money can only be one of legal history,’ I come to the conclusion that a theory of money must be both economic and legal.”[88] Helfferich considers himself in regard to the legal theory essentially close to Knapp’s, but he wants to supplement it (the legal theory) with an economic theory, i.e., with a value theory.[89]

Value of Money

This raises the question of the value of money. “For Knapp only the legal question of ‘value’ exists, not the economic question of the purchasing power of money, he concludes from the necessity of the ‘rekurrente Anschluss’ that the unit of account underlying the monetary system of a country is ‘historically defined’, while he rejects a ‘real definition’ of the value (by a certain metal quantum).The conclusion is correct, but–as we shall see–not exhaustive.”[90]

Helfferich rejects Knapp’s explanations on the value of money formulated over the years: The value of money “exists for him only as a means of payment for monetary debts (as a legal category), not as purchasing power in the economic circulation (as an economic category). For him (Knapp), the

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81 Helfferich (1927) p. 2
82 Helfferich (1927) p. 33
83 Helfferich (1923) p. 263, 310
84 Helfferich (1927) p. 303
85 Helfferich (1927) p. 313
86 Helfferich (1923) p. 462
87 Helfferich (1927) p. 490
88 Helfferich (1923) p. 320 incl. footnote (own translation), section omitted in translation, see comment by the translator (Helfferich (1927) p. vii)
89 Helfferich (1923) p. 364 (footnote)
90 Helfferich (1923) p. 365 incl. footnote (own translation), section omitted in translation, see comment by the translator (Helfferich (1927) p. vii)

problem of a currency reform is solved with the false premise that the position of the economic individuals is an ‘amphitropic’ one, i.e., each individual is both debtor and creditor; in the case of sinking or rising currency value, therefore, the apparent loss or profit in lending is compensated by the corresponding profit or loss in borrowing.”[91]

Helfferich rejects the Quantity Theory of Money and its mathematical version of money supply and velocity of circulation.[92] Above all, he doubts the causal effect of the money supply on prices: “Are we, then, to regard the general rise in prices and in wages, which from the beginning of the War occurred throughout the world, as having been caused by the increase in the demand for goods or by more abundant offers of money? In other words, was the cause to be found in factors on the side of the goods or in those on the side of money? We cannot tell, because both processes–the increased demand and the increased supply–are simply two forms of the same basic fact."[93]

Helfferich locates the reasons for the inflation above all in the increased wages: “Let us take another case. During the period immediately after the Revolution in Germany it was found that the then unlimited power of the working-classes enabled these, whilst producing considerably less, not only to keep wages at their high war level but even to increase them further. This fact must of itself necessarily have conduced to a rise in the prices of commodities and accordingly to a reduction in the purchasing power of money. (...) The rise in wages and prices contributed without doubt to inflation through the issue of paper money, if only by increasing all the expenditure of the Reich on goods and services. If the Reich had not been able to issue paper money, the forcing upward of wages and thereby also of prices would assuredly have found a serious obstacle in the impossibility of procuring the means of payment of wages and of prices. Thus also in this case factors operative on the side of money and on the side of wages and prices are so interwoven that it is impossible to ascribe the decisive influence either to the money or to the goods side of the equation."[94]

Helfferich describes a wage-price spiral: “The greater the power of labour, the easier it is for the workers to bring about, when money depreciates and the prices of the necessaries of life rise, a corresponding increase in their wages, and in certain circumstances they may even be in a position, by means of increased wages, to steal a march on the rise in prices."[95] The same reasoning, although not focused on wages, can also be found in Knapp, who also sees prices as exogenously determined.[96]

Helfferich describes the negative effects of inflation in detail. “Those who are economically strongest are in a position to exploit the maladjustments to their advantage, at the expense of those who are economically weaker."[97] He mentions the shifts between debtors and creditors and the losses in pensions or salaries. “A depreciation of money means that all who are under an obligation to make such fixed payments are placed in a more favourable position. (...) We must, therefore, point out that the term 'creditor' in the sense used here includes not only the large capitalist but also the small investor, often involuntarily so situated, as well as the workman who has deposited his savings in a savings bank The 'debtor' class includes not only the small peasants whose land is heavily mortgaged, but also the large and powerful entrepreneurs, particularly companies which work in part with borrowed capital, bank credits, and money raised against debentures."[98]

Inflation is also driving a speculative upswing until the inevitable setback occurs: “Whilst the temporary high profits of individual undertakings, the low rates of interest, and the high prices of gilt-edged securities conduce to an excessive demand for industrial shares they lead to over-speculation and ultimately to an unavoidable reaction."[99]

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91 Helfferich (1923) p. 381 incl. footnote (own translation), section omitted in translation, see comment by the translator (Helfferich (1927) p. vii)
92 Helfferich (1923) p. 502, 505, 650
93 Helfferich (1927) p. 513
94 Helfferich (1927) p. 514
95 Helfferich (1927) p. 546
96 Knapp (1918) p. 444f
97 Helfferich (1927) p. 545
98 Helfferich (1927) p. 546
99 Helfferich (1927) p. 547

Inflation of 1923

The war-related monetary needs of the State led to the issue of paper money.[100] “The first step was the freeing of the Reichsbank from its obligation to exchange its bank notes for gold currency upon demand."[101] "As it was quite impossible suddenly to increase the metallic circulation, (...) the only media remaining for the satisfaction of the inflated demand for currency were bank notes and the paper money of the State. Accordingly, all countries directly or indirectly affected by the War permitted their note issuing banks to relax the regulations which circumscribed their note-issuing powers."[102]
In this situation, paper money, unlike gold money, could be expanded accordingly, creating new purchasing power for the State.[103] “This method of procedure leads, in its very nature, to an increase in the circulating currency, and the newly created purchasing power of the State enters into competition with that previously available, and at first seemingly undiminished, purchasing power of private individuals and concerns. In other words, we have the phenomenon known as 'inflation,' which must necessarily lead to a fall in the purchasing power of money."[104]

This inflation affected all belligerent countries and continued in progressive acceleration after the signing of the peace treaty.[105] This is why, for Helfferich, the real reason for the inflation lies after the war: “This enormous rise in the circulation of paper currency in post-war Germany is a direct consequence of the disorganisation of the German finances brought about by revolution and by the conditions imposed by the Peace. Compared with this factor, the direct after-effects of the War are of almost secondary importance. (...) Since the end of the War and from the days of the revolution, it has been quite impossible to raise money by way of loans. (...) The Reich was, and is, therefore, compelled, until such time as the reparations question is settled in a way which the country can bear, to obtain the supplies which it cannot raise by taxation and from other income, by issuing Treasury bills. These, in so far as they are not taken up by the money market, are discounted by the Reichsbank, the proceeds being placed to current or deposit account, or by the issue against them of Reichsbank notes."[106]

Supported by data on the circulation of paper money and the State deficit, he concludes that it is not the war financing, for which he was responsible, that is to blame for inflation, but rather the “debt dictate of Versailles” and the policies of the revolutionaries, who, for example, have pushed through far too high wages.[107]

The countries that could end the increase in paper money circulation after the war were also the countries where prices and wages fell.[108] “The Revolution brought in its train the legal 8-hour day, numerous strikes, and other frictional forces, which aggravated the physical exhaustion and helped to reduce further the already low productivity of labour. At the same time the power of Labour was increasing, and in the knowledge of its power Labour was making claims for higher wages. This resulted in a race between wages and prices, in which wages may for the time being have stolen a march on prices, but were in the long run always overtaken by the latter."[109]

Helfferich positions himself at first between Quantity Theorists and Balance of Payments Theorists in the discussion about the causes of inflation: “In considering the monetary conditions in Germany, the view widely held, especially abroad, is based on the pure quantity theory, and accordingly regards the increase in the circulation of paper currency in Germany as the cause of the rise in the level of German prices and of the depreciation of the currency. On closer examination, however, we find that cause and effect are here interchanged, and that the increase in the amount of paper money circulating in Germany is not in fact the cause but the result of the fall of the German exchanges and of the

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100 Helfferich (1923) p. 65
101 Helfferich (1927) p. 209
102 Helfferich (1927) p. 219f
103 Helfferich (1923) p. 207
104 Helfferich (1927) p. 225
105 Helfferich (1923) p. 219, 254
106 Helfferich (1927) p. 240f
107 Helfferich (1923) p. 215, 226, 530ff
108 Helfferich (1923) p. 622f
109 Helfferich (1927) p. 578f

consequential rise in wages and prices."[110] Helfferich sees the main reason for the collapse of the currency in the unrealistic high reparation payments.[111]

“The chain of causes and effects is, therefore: First came the depreciation of the German currency by the overburdening of Germany with international liabilities and by the French policy of violence. Thence followed a rise in the prices of all imported commodities. This led to a general rise in prices and wages, which in turn led to a greater demand for currency by the public and by the financial authorities of the Reich, and finally, the greater calls upon the Reichsbank from the public and the financial administration of the Reich led to an increase in the note issue. In contrast, therefore, to the widely held view, it is not 'inflation' but the depreciation of the currency which is the first link in this chain of cause and effect. Inflation is not the cause of the rise in prices and of the depreciated currency, but the latter is the cause of the higher prices and of the greater volume in the issue of paper money."[112]

As the solution to the crisis, Helfferich recommends strict austerity: “Germany, without a doubt, if the monetary system and its economic institutions are to recover, will have to abolish the use of the narcotic of the continued increase in media of payment and, given the necessary political conditions, will ultimately have to adopt a policy of deflation Germany, too, when the apparent profits resulting from continual increases in prices and rises in rates of exchange have ceased and definite limits to wages and salaries have thereby been attained, will have to pass through the crisis which will precede a complete recovery of health, a crisis which no country has yet escaped when, after becoming accustomed to inflation and to a depreciation of money, it has begun a regimen of cure."[113]

This also includes the reintroduction of a gold currency, i.e., a deflationary policy. “This leaves a country in our position–it may sound unimaginative, but it is the result of relentless logic–(…) only the work of restoring the gold base for its currency.”[114]

Helfferich on Knapp

Helfferich seeks a positive integration of *State Theory* into his approach; “Knapp’s work *The State Theory of Money* means, as far as the analysis of the State monetary system is concerned, a decisive step forward in the science of money.”[115] He honors his academic teacher: “Knapp’s analysis of the nature of money and the constitution of money rises far above all attempts made in this field so far. It has brought clarity and order into a series of previously distorted and confused concepts; no monetary theory will be able to ignore Knapp’s results in the future, even if, like the author, one does not accept them in all details and consequences.”[116]
Helfferich wants to locate the differences between him and Knapp only to the practical, political level and not to understand them as a theoretical difference, “but it must be admitted that Knapp does not focus on the practical, but on the theoretical relevance.”[117]

He accuses Knapp of overestimating the power and integrity of the State.[118] “Even to the State itself the unrestricted possibility of making money out of nothing is too tempting for us to feel quite certain that there would be no misuse of the power for fiscal purposes. Added to this, especially in these times of economic controversies, a fight would result between the interests concerned and this fight would, in the absence of an objective criterion, be decided in advance not by reason and justice but by brute force only."[119]

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110 Helfferich (1927) p. 598
111 Helfferich (1923) p. 647
112 Helfferich (1927) p. 601
113 Helfferich (1927) p. 627
114 Helfferich (1923) p. 674 (own translation), translation is incomplete in Helfferich (1927)
115 Helfferich (1923) p. VII (own translation), omitted in translation
116 Helfferich (1923) p. 429 (footnote) (own translation), section omitted in translation, see comment by the translator (Helfferich (1927) p. vii)
117 Helfferich (1923) p. 455 (own translation), section omitted in translation, see comment by the translator (Helfferich (1927) p. vii)
118 Helfferich (1923) p. 457
119 Helfferich (1927) p. 621

"Even those who have the greatest belief in the capacity of humanity for intellectual and moral development cannot doubt that many a year will pass before the deficiency in human knowledge and the power of human self-seeking and passions will be sufficiently overcome to enable money, which is the earner of all economic relations, to be freed without risk from its association with a universally accepted value."[120]

Conclusion

Helfferich's work was praised for its rich historical expositions, as a large collection of material. However, weaknesses are often seen in the theoretical part.[121]
Helfferich is in conflict between the theory of his teacher and friend and his metallistic beliefs. He understands Knapp`s position as the ideal situation at the end of the development and himself as a practical metallist who vehemently sticks to a gold currency.[122] "Helfferich did, however, from his point of view, do his utmost to acquire the newer views of his former teacher. He had to avoid the last step of approval if he wanted to maintain his old basic view at all. But it can no longer be said that the two parties are at odds with each other: the first step toward agreement has been taken."[123]

Mises considers Helfferich as having failed in this attempt: "The follower of Bamberger has fallen under the spell of Knapp's *State Theory* and has tried to unite Bamberger and Knapp in unsustainable eclecticism. That is the one fundamental error of the work as it now exists."[124]

Knapp himself expresses his distancing in very friendly words. He wrote a letter to Helfferich: "You have almost literally anticipated many things for me (…). This gives me the advantage of being able to be much shorter than I would otherwise have been. On the other hand, I would have omitted some of the controversies that you present, but not all of them. Finally, I still have some things to say that you do not, or only implicit. I feel–because of my old age–like a radical. Overall, I can calculate as follows: you have done two fifths, and I have only three fifths left. If I had been given the opportunity to work faster, I would have wished to present before you. Since I cannot change my nature, it is dear to me, that you save me so much trouble."[125]

In a newspaper article from 1923, linked directly to the currency reform, Helfferich then distanced himself more clearly from Knapp than before. "In the search for new ways, we had to bear two facts in mind above all: firstly, the collapse of faith in the power of the State over money, as it has found its classical scientific expression in G. F. Knapp's *State Theory of Money*. Furthermore, the impossibility of the creation of a new real value basis for German money, i.e., in the attempt to realize the 'metallistic' or 'substance theory', of direct or indirect redeemability of paper money in gold or other precious metals. The 'proclamatory value' from State power as the value of money has completely failed in the development of the German monetary system."[126]

With everything that Helfferich said after the war, it must not be forgotten that he always wrote with the objective to justify his way of war financing and to negate his responsibility for the inflation.[127]

Rudolf Hilferding on *The State Theory of Money*

Biography[128]

Rudolf Hilferding was born in Vienna in 1877. In addition to his medical studies at the university of Vienna, he studied some economics. After receiving his doctorate in 1901, Hilferding practiced as a medical doctor. In 1906 he became a lecturer in economics at the newly founded Socialdemokratische Partei Deutschlands (SPD) party school in Berlin. From 1907 to 1915 he worked as a political editor and later as editor-in-chief of the SPD central organ *Vorwärts*.

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120 Helfferich (1927) p. 622
121 z.B. Williamson (1971) p. 43; Harrod (1928) p. 99; Calligaris (1911) p. 268; Ellis (1937) p. 60
122 Calligaris (1911) p. 269; Harrod (1928) p. 100
123 Calligaris (1911) p. 270 (own translation)
124 Mises (1924) p. 160 (own translation)
125 Letter fom Knapp to Helfferich (April 14, 1903), quoted from Lumm (1926) p. 71f (own translation)
126 Helfferich (1923 NZZ) (own translation)
127 Krohn (1975) p. 70
128 Greitens (2018) p. 223ff

From 1917 Hilferding was a member of the Unabhängige Sozialdemokratische Partei Deutschlands (USPD) and from 1918 to 1923 he was the editor-in-chief of the USPD central organ *Freiheit*. He was involved in the re-unification of the USPD with the SPD, in 1922. In the first cabinet of the "Grand Coalition" with Gustav Stresemann as Reichs-Chancellor, he was the Finance Minister from August 13 to October 6, 1923, and from 1924 to 1933 he sat in the Reichstag as an SPD parliamentarian. Under Reichs-Chancellor Hermann Müller (SPD) he again became Finance Minister from 1928 to 1929.

He was expatriated in 1933, first he went to Zurich and then he lived in France from 1938. After the German occupation of France, Hilferding was arrested by the French authorities in Marseille and extradited to the Gestapo on February 9, 1941. Two days later he died in the Gestapo prison in Paris.

Hilferding saw himself as a Marxist and a close friend and successor of Karl Kautsky. He was responsible for the ideological orientation of the SPD for many years. With *Finance Capital* Hilferding took over many of Karl Marx's ideas on money and finance, which were only fragmentarily elaborated in the posthumous third volume of Das *Kapital* edited by Friedrich Engels, to systematically elaborate them in light of the developments around 1900.

Monetary Theory in *Finance Capital*

Hilferding's 1910 *Finance Capital* was his central theoretical achievement. It was published four times during his lifetime (1910, 1920, 1923, and 1927) but was not translated into English until 1981.

Monetary theory is not at the center of *Finance Capital.* Hilferding, however, puts it at the beginning where he develops his idea of a consciously organized economy under the rule of the banks. He aligns himself closely with the writings of Karl Marx, known at that time, and develops them further.

Hilferding did not describe one, but three monetary theories, which he tried to combine with each other.

1. Hilferding's approach is based on Marx's theory of gold money whose value is determined by production costs in the sense of labor value theory.
2. However, he emphasizes his affiliation with banking theory and the self-regulating, endogenous money supply via credit processes.
3. Further, Hilferding allows government paper money to exist as gold representation up to the level of the circulation minimum[129] and, if it goes beyond that, subjects it to a price determination based on the Quantity Theory of Money.

All three components of money have their own inner logic. Gold money and government paper money are part of currency and are supplemented by credit money, which is based on Marx's interpretation of the Banking School and elastically expands the money supply.[130]

For Harold James, Hilferding's idea of paper money up to level of the circulation minimum, despite Marx's fundamentals,[131] is influenced by Knapp: "Hilferding's theory of socially necessary circulation value takes over, however, despite the attack on Knapp and Helfferich, one of the main features of Knapp's anti-quantitavist argument; changes in the gold supply on the cost of gold production will not alter prices or the level of economic activity."[132]

Within the minimum of circulation, Hilferding accepts a paper currency because he understands that its value is determined by the value of the circulating goods. Only if the quantity of the circulating medium exceeds the value of the circulating goods, the value of the paper money is determined by the Quantity Theory of Money and can have a different value to the precious metal money. Using the example of the Austrian paper currency from 1879 to 1892 as an example, Hilferding deals with

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129 The circulation fluctuates with the price sum of the traded goods and therefore with the economic situation. Within the minimum circulation, the state can now issue paper money with fixed exchange rate guaranteed by the state.

130 Greitens (2018) p. 30ff

131 "Now the quantity of gold which the circulation can absorb, constantly fluctuates about a given level. Still, the mass of the circulating medium in a given country never sinks below a certain minimum easily ascertained by actual experience. (...) It can therefore be replaced by paper symbols." [Marx (1867) p. 101]

132 James (1981) p. 853

Helfferich on this point: “The suspension of free coinage in a silver currency system is a condition of, and an explanation for, the emancipation of coined silver from the value of bullion, as Helfferich correctly indicates. But this does not tell us anything about the crucial issue; namely, the amount of value that the coin retains. That value is determined, of course, by the quantity of circulating media required by society which, in turn, is determined in the final analysis by the value of the sum of commodities. Helfferich’s subjective theory of value prevents him from recognizing this fact."[133]

Although Helfferich considers it theoretically possible to establish a sufficiently elastic paper currency, Hilferding rejects this notion on the basis that paper money cannot fulfill any store of value function: “money with an intrinsic value–such as gold–is always needed as a means of storing wealth in a form in which it is always available for use."[134]

In an article in *Die Neue Zeit* in 1912, Hilferding extended his monetary theory. While he was still skeptical in *Finance Capital*, he now considers a currency independent of the gold value to be possible in the long term as well.

First, he confirms the approach in the *Finance Capital*: The value in circulation determines the value of the paper money.[135] “Such money only receives its price through the circulation value.”[136] Gold, on the other hand, has a certain intrinsic value: “If the society has a quantity of gold of 2000; if the circulation value equals 1000, then pieces of gold with a value of 1000 will be kept in circulation, 1000 as treasure.”[137] In the case of a “paper currency, the quantity is the given, its value is determined by the circulating value of the goods, in the case of gold currency, the intrinsic value of gold is given, the quantity is determined by the circulation value.”[138]

After that, he deviates from *Finance Capital* by allowing the entry and exit of gold into circulation to be controlled: “The central banks accept all gold offered to them. So, demand is unlimited.”[139] The bank guarantees that “for every one kilogram of gold, one kilogram is always given in gold coins.”[140] If it did not increase the quantity of gold to 1500 when the circulation expanded to 1500, the value of the gold money circulating would have to increase 1.5 times. By adjusting the quantity of gold, the banks ensured that the value ratios would not change. “For only when the goods and the means of circulation are directly opposed to each other, they can determine each other’s values. Money outside the circulation, as treasure in the bank vaults, is out of all proportion to the circulating sum of goods.”[141]

Only if this mechanism was broken, i.e., if the supply was too large and the central banks were no longer able or willing to demand, would the price of gold fall. If the central banks continued to mint gold into coins and the exchange ratio of the coin gold did not change, “the exchange ratio of the gold coin (…) would be different from that of the uncoined gold.”[142] Thus, the direct relevance of Marx’s value theory for gold as money is eliminated and the circulating value also applies to gold money.

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133 Hilferding (1981) p. 45
134 Hilferding (1981) p. 58; he adds in a footnote: "Hence, Helfferich is wrong when he says: ‘Theoretically, it would be possible completely to adapt the issue of a pure and simple paper currency to the fluctuations of the country’s economic demand for money and to obviate thereby certain disturbances which may occur in the case of a metallic standard currency through displacements in the equilibrium between money supply and demand.’" [Hilferding (1981) p. 371]
135 "the value of the sum of money = (sum of the value of the goods)/(speed of circulation of the money) plus the sum of the payments due minus the payments in balance minus the number of circulations in which the same coin will soon act as a means of circulation, soon as a means of payment" [Hilferding (1912) p. 44 and Hilferding (1981) p. 47f]
136 Hilferding (1912) p. 46 (own translation)
137 Hilferding (1912) p. 46 (own translation)
138 Hilferding (1912) p. 46 (own translation)
139 Hilferding (1912) p. 46 (own translation)
140 Hilferding (1912) p. 47 (own translation)
141 Hilferding (1912) p. 47 (own translation)
142 Hilferding (1912) p. 47 (own translation)

The currency monopoly thus creates the possibility of deviating from the Marxian value theory. Through their monopoly, central banks can control the value by regulating the quantity of gold used for circulation. “The State regulation of the monetary system thus means a fundamental change in the ratio of gold to commodity. The exchange ratio of gold coins and commodity is fixed by State intervention; but not arbitrarily. The State only takes over a historically natural exchange ratio: it cannot change anything about it if the mechanism remains the same. Changes in the production costs of gold do not affect the exchange ratio of the gold coin to the goods, but only determine the question of which gold reservoirs can still be exploited with the prospect of profit.”[143]

Hilferding thus relativizes the fixed value of gold money to gold, since the State, with the infinite elasticity of the central banks in the demand for gold, can regulate the quantity of coins independently. Thus, the gold minted in coins is subject to the same conditions that Hilferding had set for paper currency.

Kautsky rightly observes: “The difference between the vulgar Quantity Theory of Money and Hilferding’s circulating value is that the Quantity Theory of Money understands all gold (or silver) that has been mined to the surface by the mountain of metal, whereas Hilferding regards this mountain of metal as the part of gold that is in circulation, which in his opinion can always be obtained by the banks in a certain proportion to the commodity stock. If it is ensured that the mountain of metal always maintains this same ratio to the commodity stock, just as it increases and decreases, then the same aliquot part of the commodity stock will always exchange itself with the same aliquot part of the mountain of metal.”[144]

Hilferding on Knapp in *Finance Capital*

In *Finance Capital*, Hilferding writes that Knapp’s work had been available to him too late to be treat in detail.[145] Nevertheless, he made several comments on Knapp in in the book. “It was this situation which led Knapp, acute though he was in his appreciation of the problems raised by modern monetary experience, to attempt to set aside any kind of economic explanation, and replace it by a terminology drawn from jurisprudence which can indeed provide no explanation, and hence no scientific understanding, but may at least offer the possibility of a neutral and unprejudiced description."[146]
In Hilferding, the State has a subordinate role in securing a convention: “Since the supreme conscious organization in a commodity producing society is the state, it falls to the state to sanction this agreement, so that it shall be generally accepted throughout society. Its procedure in this instance is the same as in establishing any other standard, for example, a measure of length. (…) The standard is valid only within the area covered by the agreement, for example, within the boundaries of the state, outside of which it becomes unacceptable."[147] In a footnote Hilferding adds: "The only part the state can play in the matter is the one outlined in the text. This serves to dispel Knapp’s illusion that money originates by state fiat."[148]

Without explicit reference to Knapp, Hilferding writes: “In the first place, it remains a complete mystery how the state can possibly confer a purchasing power on a piece of paper or a gram of silver which wine, boots, shoe polish, etc., do not have. Furthermore, such attempts by the state have always come to grief."[149]

In connection with paper money circulating up to the circulation minimum, Hilferding writes in a footnote: “This serves to dispel Knapp’s illusion that money originates by state fiat. Moreover, it enables us to see that, historically, money originated in circulation and is therefore primarily a medium of circulation. Only after it has become a general standard of value and the general equivalent of

143 Hilferding (1912) p. 52 (own translation)
144 Kautsky (1912) p. 891 (own translation)
145 Hilferding (1910) p. XLVII; There was a request in December 1905 from Hilferding via Otto Bauer to Kautsky to send him this work. [Kurata (1981) p. 75]
146 Hilferding (1981) p. 22
147 Hilferding (1981) p. 36
148 Hilferding (1981) p. 366
149 Hilferding (1981) p. 47

commodities, does it become a general means of payment, notwithstanding Knapp's view to the contrary."[150]

Hilferding's Private Library

In 1956, Hilferding's second wife, Rose Hilferding, donated his private library to the "Seminar für Politische Wissenschaften" of the University of Cologne, whose director at the time was Heinrich Brüning, with whom Hilferding had worked closely during his chancellorship. In a letter of thanks from Hermann Josef Unland from the Seminar to Rose Hilferding dated October 15, 1956, he states that seven boxes weighing 637 kg had arrived in Cologne on October 12, 1956.[151]
In 1957, the inventory was published in a brochure. The list includes 609 titles.[152] For a long time, the collection was accessible in its entirety in the Politikwissenschaftliche Seminar and was later incorporated into the library's main collection. Finally, Hilferdings books were sorted out and about to be liquidated. Since 2018, it has been made available again as a separate collection at the Universitäts- und Stadtbibliothek of Cologne.[153]

The database of the library contains 698 titles for the collection. The difference results from a different collection system (e.g., in 1957, the 19 volumes of the *Internationale Bibliothek* were combined into one position). However, 68 publications are missing from the 1957 list. They are predominantly books which were most likely available multiple times at the library (by famous authors like Marx, Sombart, Oppenheimer, Luxemburg, and Kautsky) and were therefore sorted out. Also, nine works are now assigned which were not yet on the list in 1957. In the collection, there is only one book from the time of the writing of *Finance Capital*, which shows marks of extensive handling and many handwritten commentaries, namely Knapp's, *State Theory of Money*.[154]

Hilferding on Knapp: The Never Written Review

This is a review copy of the first edition. This copy is without binding, has a different format, but the same layout as the first edition. There are blue and gray markings in the copy, and comments written in gray and black. In view of the many and varied comments, it can be assumed that Hilferding has worked through it several times.
There are no known reviews of Hilferding on *The State Theory of Money*. However, given the state of his copy, it can be assumed that he had planned one. The short notes presented in *Finance Capital* are the only visible result of these annotations. By means of a selection of the comments, Hilferding's criticism of Knapp's theory becomes even clearer.[155]

First, there are remarks that generally insult Knapp's theory. On p. 40, Hilferding puts the word "bad" before "framework of theory" or on p. 45 "because it explains everything" he comments with "nothing."

Then there are numerous remarks in which Hilferding disputes that Knapp wrote an economic theory. Hilferding already makes this clear in the preface, when the philosophical references mentioned by Knapp are commented "instead of the economic." He states on p. 34 that Knapp has no value theory, and thus cannot provide any economic theory at all. On p. 41, he writes: "Poor theory: but it has only social content." On p. 263 he writes: "In Knapp, theory means abstraction from the economy."

However, Hilferding also discusses the monetary theory itself. Hilferding rejects a paper money system with the following words: "But the 'value' of the value unit is not real, i.e., not legally fixed, historical continuity does not explain the possibility of paper money, even less the degree of its devaluation."[156]

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150 Hilferding (1981) p. 366
151 Archiv der sozialen Demokratie, Friedrich Ebert Stiftung, Bestand Rose Hilferding, 1 / RHAB 1 /2
152 Hilferding (1957)
153 https://www.ub.uni-koeln.de/sammlungen/hilferding/index_ger.html
154 All information on the handwritten notes refer to the book of 1905 deposited in the library under HILF423. Therefore the following page details also correspond to those of the 1st edition of 1905.
155 Hilferdings comments are my own translations.
156 Hilferding in Knapp (1905) p. 14 (own translation)

Knapp writes: “The settlement of the validity of the coin is not part of the Mint technique, but of Chartal law. This circumstance is easily overlooked by the metallists, who never can get rid of the idea that the unit of value is represented by a given quantity of metal."[157] Hilferding comments: “No, but metal value, the value of this quantity.”

Hilferding comments similarly on the following sentence: “This definition has nothing to do with the substance of which the old means of payment consisted."[158] Hilferding writes: “but with the value of the material.”

Hilferding rejects Knapp’s theory for free coinage. Knapp writes: “It must be added that we pay with pieces that have a legal significance. Our law lays it down that only pieces formed in such and such a manner are to be admitted as means of payment, and the significant marks of the pieces are prescribed by law."[159] And Hilferding comments: “But anyone can have these pieces made for him, free coinage!”

Knapp writes: “Money is a creation of law, and, in the last resort, can continue to exist even without hylic metal, because the unit of value is defined not technically but legally."[160] Hilferding: “neither technical, nor legal, nor ‘defined’, but given economically.”

On the “rekurrente Anschluss,” Knapp writes: “The unit of value which is to come into use is defined by its relation to the previous unit. It is therefore historically defined."[161] Hilferding comments: “characteristic: the economist’s most important question about the content of the definition does not interest the lawyer.”

Hilferding points to the distribution issues in the “rekurrente Anschluss:” “But their real substance depends on the value of the new means of payment.”[162] According to Hilferding, the exchange has to take place as follows: “But it also depends on their abstract value, the debts in the new money must have just as much value and purchasing power as the old ones”[163] because “nobody needs to be damaged.”[164]

Knapp writes: “for internal trade, excluding the bullion business, the choice of the standard hardly matters at all, since it only produces secondary effects which vanish in the general welter of continuous price changes."[165] Hilferding: “K. completely disregards the relationship of money to goods and considers only the banality that with gold currency gold has a fixed ‘price’; which is nothing more than a fixation of a certain weight of gold in a certain name.”

Hilferding also repeatedly accuses Knapp of the absence of a monetary value theory. When Knapp discusses agios with different types of money, Hilferding writes: “But the effect on commodity prices is not taken into account”[166] and “Namely through the devaluation of paper money”[167] and “Again Knapp ignores the effect on commodity prices.”[168]

The following comment can be understood as a summary: “The man throws everything upside down: government paper money, checks, banknotes, coins, metal. He sees nothing but the stamp and imagines that the stamp gives value; hence the curious notion that money is maintained as gold only because of foreign trade relations.”[169]

Hilferding at this time, i.e., probably 1905/06, still proceeds strictly exclusively from a money having an intrinsic value and therefore cannot fundamentally accept Knapp’s theory.

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157 Knapp (1924) p. 58
158 Knapp (1924) p. 18
159 Knapp (1924) p. 27
160 Knapp (1924) p. 296
161 Knapp (1924) p. 21
162 Hilferding in Knapp (1905) p. 12 (own translation)
163 Hilferding in Knapp (1905) p. 16 (own translation)
164 Hilferding in Knapp (1905) p. 16 (own translation)
165 Knapp (1924) p. 209f
166 Hilferding in Knapp (1905) p. 150 (own translation)
167 Hilferding in Knapp (1905) p. 151 (own translation)
168 Hilferding in Knapp (1905) p. 343 (own translation)
169 Hilferding in Knapp (1905) p. 270 (own translation)

Conclusion

Hilferding is increasingly open towards Chartalism between reviewing Knapp's book in 1905/06, *Finance Capital* (1910) and the essay "Geld und Ware" (1912). The acceptance of the possibilities of a pure paper money up to the circulation minimum and the explanation of the deviating rates, also of gold money, by the power of the central banks does not make him yet a representative of *The State Theory of Money*.

This openness, however, makes Marxist circles suspicious of Hilferding and thinking that he is a Knapp supporter. Heinrich Cunow writes in a review of *Finance Capital*: "but Hilferding by no means automatically adopts Marx's remarks. So, e.g., Hilferding makes the so-called chartalistic direction some concessions, although he accepts the view (…) held by Marx (…) that coin money can only be replaced by paper money to the extent that the quantity of paper money remains below the minimum of the total quantity of money required for circulation."[170]

Hilferding considers Knapp's approach to be a primarily legal classification. However, he presents Helfferich's monetary theory approach in a much more positive light, because he is also convinced of the necessity of a gold currency.

The Confrontation During the Hyperinflation 1923

The discussed theories will be examined against the background of the debate during the hyperinflation of 1923, which crucially involved Hilferding and Helfferich.

Balance of Payments-Theory or Quantity Theory of Money as an Explanation of Inflation

Two approaches to explaining inflation were already advocated during the period of inflation. On the one hand, the Quantity Theory of Money, which saw the cause in the increase of the money supply (central representatives were Gustav Cassel and Alfred Lansburgh) and the Balance of Payments-Theory, which saw the cause in the balance of payments deficits and the strong devaluation of the Mark, which in turn resulted in cost increases (central representative was Moritz Julius Bonn).[171] Helfferich was a vocal exponent of the Balance of Payments-Theory, whereas Hilferding, in view of the exceeding of the minimum of circulation, argued more in terms of Quantity Theory of Money.[172] Price increases had already begun during the war but were suppressed by administrative measures. At the same time, the exchange rate was free and fell sharply. So, the question was whether the exchange rate indicated the extent of the actual currency devaluation or caused the inflation.[173]

The two most comprehensive economic studies on the hyperinflation of 1923 still originate from Holtfrerich (1980) and Feldman (1997), who also deal extensively with the causes of inflation. Both economists, who can be described as Keynesians, emphasize the many causes, including non-economic ones. Particularly in the long run, however, money supply growth is essential, even if the short-term dynamics could be influenced by other factors (money demand and speed of circulation, political events, shocks on production, price controls, etc.).[174] James attributes plausibility to both theories, Quantity Theory of Money and Balance of Payments-Theory,[175] and Kindleberger fundamentally rejects all theories explaining the inflation without taking into account the complexity of events.[176]

The governments after 1919 were not willing to finance the consolidation of the currency with cuts in the conversion to the peace economy, in social policy or later by abandoning the Ruhrkampf. As early as 1919, the Reichsmark had lost its function as a unit of account and a system of gold mark accounting (a gold mark of 10/42 US dollars) emerged, although only paper marks circulated.[177]

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170 Cunow (1910) (own translation)
171 Czada (1973) p. 10
172 James (1981) p. 858; Beusch (1928) p. 26
173 Krohn (1975) p. 74f
174 Holtfrerich (1980) p. 190f, 327ff; Feldman (1997) p. 7ff
175 James (1998) p. 50
176 Kindleberger (1984) p. 31f
177 Pfleiderer (1978) p. 108, 115, 120

Even before the war, the Reichsbank promoted cashless payments. The idea that this credit money could also be inflationary was not common, since the Real Bills Doctrine was accepted.[178] Although no quantity problems were seen, this process cumulated. "The costs of the passive resistance against the occupation of the Ruhr were only a serious factor, but by no means determinant; the causes of this collapse had already been created by the end of 1922."[179]

Throughout the war, the Reichsbank tried to increase its gold reserves. It succeeded in raising the holdings from 1.3 billion marks in 1914 to a maximum of 2.6 billion marks on November 7, 1918. The aim was to both finance imports and to demonstrate their creditworthiness in view of the high paper money issue. After the sale of gold within the framework of the peace treaties and the attempts at exchange rate stabilization, only 467 million gold marks were available in November 1923 for the currency reform.[180]

Helfferich and Hilferding During the Stabilization of the Currency

The plans proposed to fight inflation can be divided into three groups:

1) The first group of proposals aimed at stabilizing the existing currency, slowing down its further decline and maintaining it as the only currency. Tax policy, credit freezes, and exchange rate policy were intended instruments. By the summer of 1923 at the latest, however, it was too late for this.
2) The second group wanted to directly introduce a new gold currency. Hilferding's plan belonged to this group.
3) The third group aimed to switch to an interim solution. Before the long-term introduction of a new gold currency, a currency covered by annuity bonds was to be introduced. Helfferich's plan belonged to this group.[181]

Consequently, the subsequent dispute over the currency reform also became a dispute between Helfferich and Hilferding.[182]

These disputes were also connected to questions of power politics. The agricultural and industrial sectors wanted to make their assets available to the Reich as backing for a new currency in return for interest payments, tax breaks, and influence on the monetary policy of the future.[183]

When the SPD joined the Grand Coalition under Stresemann, Hilferding became Finance Minister. Accordingly, Hilferding fought without sufficient authority against a hostile civil service, both in the cabinet and in the lobby of the economy.[184]

His stabilization concept of August 9 included expenditure cuts and tax increases, as well as a control of the Reichsbank, and with it a strict foreign exchange rate and credit control. "His primary goal was, as he said, 'control of the foreign exchange market'. (…) At the same time he acknowledged the need for a 'brutal tax policy' to repair the failures of the previous period."[185]

Subsequently, a new gold-backed mark was to be introduced. For this purpose, the Reichsbank was to be divided into gold and paper money division, with the gold division issuing the new currency and ensuring international transactions, whereas the paper money division was to control and process the return of the existing paper money.

His plan was not accepted: The plan was strongly deflationary with all its social consequences, since Hilferding started his concept from a minimum of circulation as in *Finance Capital*, to which he only wanted to limit the issue of the new currency. Because gold stocks had become so low, the direct introduction of a gold currency was considered unrealistic.[186]

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178 Pfleiderer (1978) p. 104; James (1998) p. 50
179 Krohn (1975) p. 73; this is also a factor that is not present in the largely parallel course of hyperinflation in Austria.
180 Pfleiderer (1978) p. 103
181 Beusch (1928) p. 25, 31f
182 Erdmann / Vogt (1978)
183 Krohn (1975) p. 85f
184 Vogt (1978) p. 128ff
185 Möller (1971) p. 12 (own translation)
186 Beusch (1928) p. 47ff

Hilferding, on the other hand, regarded bank lending as sufficient compensation. He differentiated, as in *Finance Capital*, between the gold currency as a secure basis and the endogenous money of the banks, which adjusts itself elastically and thus permits neither inflation nor deflation.[187] Hilferding considered as prerequisite for his plan the prior settlement of the question of reparations (which took place in the Dawes Plan of 1924) and the end of the Ruhrkampf (which took place on September 26, 1923).[188]

On August 18, Karl Helfferich presented his alternative plan to rescue the currency in the form of a Roggenmark. The monetary notes were to be covered by annuities, which in turn were based on the mortgage and obligations of the economy, without the mortgage and obligation affecting the property, and the burdened persons becoming shareholders of the bank at the same time and participating in its profit.[189] This proposal is reminiscent of the land bank projects of the 17th and 18th centuries, e.g., John Law (1705), and was based on the Roggenrentenbank founded in 1922.[190] The disadvantages of a Roggenmark are the fluctuation and the harvests depending on rye prices, which can be manipulated by the large landowners. This plan was elaborated in detail by the bureaucracy around Karl Helfferich and Hans Luther (Minister for Food and Agriculture), while Hilferding's plan was poorly developed and not translated into practice by the ministerial bureaucracy.[191]

On 13th September, the cabinet decided to introduce a Roggenmark in the short term and then replace it with a gold currency in the medium term. The major modification to Helfferich's plan was enforced by Hilferding, who ensured that Roggenmark bonds were measured in gold marks.[192]

Despite this defeat, Hilferding did not resign but took over the leadership of the committee that was to implement the plan. Helfferich had made his criticism of Stresemann and Hilferding public on September 14 by publishing and commenting on the decision in the *Kreuzzeitung*. He sharply declared in the Reichstag on October 9 during the debate on the necessary Ermächtigungsgesetz that his project had been "denatured" by the government bill.[193]

On September 29, Hilferding submitted to the legislative bodies the "Entwurf eines Gesetzes über die Errichtung der Währungsbank," which had been agreed. But Stresemann resigned on October 3 to force through the Ermächtigungsgesetz. Hilferding was no longer in Stresemann's second cabinet while the SPD remained in government, and Hans Luther became Finance Minister. On November 15, the Deutsche Rentenbank started its activities.[194]

Helfferich's plan was a vital impulse. However, it was implemented by Hans Luther and Hjalmar Schacht (who became president of the Reichsbank in the same year), and it was characterized by political compromises. Nevertheless, Helfferich later let himself be celebrated as the "father of Rentenmark."[195]

Conclusion

The relationship between the three authors is complicated. Although Helfferich and Knapp were personally close, they were theoretically far apart–even if Helfferich wanted to hide it. Although Hilferding and Helfferich were closer on some points (e.g., the need for a gold-based currency), they attacked each other personally and violently.
The strong personification of positions was criticized by contemporaries, e.g., John Maynard Keynes wrote in 1914: "followers of Knapp show a distinct tendency to regard him at least as much in the light of a prophet as in that of an economist."[196]

187 Smaldone (2000) p. 159
188 Erdmann / Vogt (1978); Lumm (1926) p. 113
189 Beusch (1928) p. 28,32; Erdmann / Vogt (1978)
190 Greitens (2019) p. 182ff; Klüßendorf (2013) p. 58
191 James (1981) p. 859
192 Pfleiderer (1978) p. 124
193 Erdmann / Vogt (1978)
194 Möller (1971) p. 14f, Smaldone (2000) p. 159
195 Beusch (1928) p. 52f, 58f, Lumm (1926) p. 104
196 Keynes (1914) p. 418

Whether the conservative Knapp, with his "administrative law approach"[197] of money, is suitable as an ancestor for the political goals of MMT is doubtful. Many of the macroeconomic aspects of MMT were not even developed around 1905. Like Knapp, MMT also rejects the Quantity Theory for determining the value of a fiat currency, whose quantity is determined autonomously by the government without credit transactions.

Helfferich, although so influential in his time, has been marginally treated in the history of economic thought. His fiscal policy during the war, with the monetary financing of massive increases in expenditure, represents in some respects an application of *The State Theory of Money* in practice. Although he rejected the approach, the exceptional situation of the war made him implement this idea. His famous formulation of the "lead weight of billions"[198] to be imposed on the defeated enemies shows that he also consciously and willingly accepted the negative effects. Wray/Mitchell's explanation of the hyperinflation of 1923 is therefore not convincing: it does not consider the complexity of the causes, and it uncritically adopts Helfferich's defense position.

The Hilferding collection in the Universitäts- und Stadtbibliothek of Cologne was accessible again, so it was possible to find Hilferding's review of the *State Theory of Money* and present his examination of Knapp. Hilferding's position exemplifies the difficulties of an economist, who was influenced by the metallistic approach as a means of exchange in the first volume of Marx's *Capital*, but who develops some inclination toward the chartalistic theory of money.

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197 Knapp (1918) p. 434f

198 "Das Bleigewicht der Milliarden haben die Anstifter dieses Krieges verdient." (Verhandlungen des Reichstages, Band 306, 14. Sitzung, 20. August 1915, p. 224)

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