

E. C. RIEGEL ON MONEY
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Edwin Clarence Riegel (1879-1953), better known as E.C. Riegel, was an independent scholar who dedicated himself in the 1930s to understanding exchange, thinking that a simple and dependable means of exchange would do more to enhance the dignity and well being of the common man than any political reform. Before that, he had been active in the consumer movement in the 1920s and 30s, launching, as president of the Consumer Guild of America, virtually a one-man war to make America safe for the consumer, publishing four books in the first two years: *The Yellow Book* (1927); *Barnum & Bunk: An Exposure of R.H. Macy & Company* (1928); *The Three Laws of Vending* and *Main Street Follies* (1928). His principal writings on money are *The Meaning of Money* (1936), *Private Enterprise Money* (1944) and, posthumously, *The New Approach to Freedom* (1976) and *Flight from Inflation: The Monetary Alternative* (1978).

Riegel conceived of money as simply number accountancy among private traders. As he came to see it, any exchange medium is still direct barter to the degree that it has any intrinsic value. Fully evolved money enables traders to escape altogether the limitations of direct barter and achieve “split barter,” enabling the purchaser in a transaction to make payment at such time or times, and to such a party or parties, as he might choose.

Riegel’s ideas do not coincide with those of any established monetary school. Traditional views of money lie along a spectrum from those of the “hard money” theorists who favor least possible government intervention in the free-market process, and those of the “fiat money” theorists who are quite comfortable with statism, viewing money as a creation of government and requiring no intrinsic value or anything more than government management of money issue. Ironically, Riegel came down on the side of a rigorously free-market fiat system; for a mature exchange system as he conceived it would depend on no intrinsic value at all, nor would it require or tolerate any government participation. In that sense, the fully evolved exchange system would be a natural system operating entirely as a spontaneous, free-market process with no political mandates imposed.

Since most people assume that money must have intrinsic value and/or some degree of government management, Riegel’s idea of true, i.e. fully evolved, money requiring neither has been difficult for people to grasp. It might be easier to understand his concept as a moneyless exchange system - although his idea of the evolution of exchange from primitive, direct barter to true money as mere number accountancy among traders in the market place has an elegance about it.

Riegel’s idea of a fully developed exchange system can be understood in terms of “trading circles.” B has a lumber company, and A is a furniture maker. A buys lumber from B to

make furniture, paying him with valuns (Riegel's contraction of "value units). B then spends the valuns as he likes to purchase what he needs, as do those farther down the line, while A proceeds to make his furniture. When A completes his furniture, he offers it for sale competitively on the market and accepts valuns.

Who issues valuns? If A's balance with the system accountant is zero or negative, then the valuns he pays to B are new issue; if not, then they are simply valuns circulating in the trading circle. None but the system accountant knows which they are. If they are new issue, then when A sells his furniture and accepts valuns for it, he redeems his issue, and his account with the system accountant comes out of the red and into the black. Valuns may be thought of as mutual credit tokens. To qualify as a member of a trading circle, one must agree to put product or services competitively into the market and to accept valuns in payment. There can be no question about people's willingness to redeem their issue; that, after all, is what they are in business for.

There might be numerous trading circles, each with its own accountant but its valuns indistinguishable from those of other trading circles. The accountant assigns each member of his circle a credit limit based on experience with that member's type of business, charging a small fee to cover bookkeeping and insurance against default. Thus might different accounting firms form competitive trading circles, charging less or more for their insurance depending how lenient or strict the credit limits they allow. The circles would cooperate under a board of governors to conduct research into optimal credit limits for different lines of enterprise and to periodically perform credit clearances among the various trading circles.

Some advantages of the valun plan are that:

- (1) It would facilitate micro and start-up enterprises that, under the existing political system, cannot qualify for bank loans. For it would enable them to monetize their future productivity which, after all, is the backing of every valun.
- 2) It entails no interest because, except for the occasional, small personal loan, there need be no lending. A business person issues new valuns as needed, according to his credit limit. This is an attractive feature for Islamists, since it accords with their religious stricture against interest.
- (3) It does not require or tolerate participation by governments. Because governments are not traders offering goods and services competitively in the market, they cannot qualify as participants in a trading circle. Consequently, they cannot issue units into it and dilute the valun. The resulting constancy of the valun relative to political monetary units promises to be a boon for all business accounting and planning. Riegel observes that long-term business planning today, dependent on political units that are continually changing in

value, is like a builder trying to build a house using a yard stick that varies in length from day to day.

(4) Because of their relative stability, valuns would likely become the preferred unit of account over dollars or other politically issued units of value. To the degree this happened, it would eliminate deficit public spending, effectively limiting governments to what they could collect in taxes and hence severely curtailing military adventuring and warfare.

Because Riegel proposed trading circles long before the Internet, he describes a valun system operating with paper checks. The Internet would vastly simplify its implementation. Central to Riegel's concept is the valun as a stable, wholly subjective value unit. He proposed launching a valun system with the valun at par with an existing political unit such as the dollar, much as the United States dollar historically was introduced at par with the Spanish dollar and then gradually went its own way. Just as people internalize the value of a political unit such as a dollar, so they would internalize that of a valun. Over time, the political unit would diverge from the valun as it became diluted by new infusions of units, whereas the valun would remain constant or show little change.

Riegel may have been the first person ever to call for the separation of money and state. Rather than advocating political monetary reform, he forecast the continued, natural evolution of exchange towards true money, which would be altogether apolitical. He also was the first to predict the global inflation we are now experiencing. Seeing how all political monetary units are inflating and "sliding into the sea," he urged study and implementation of the valun plan. For inflations in the past were local or regional; there always remained some unit, such as the British pound in the 19th century and the dollar in the 20th, to which businessmen could escape to carry on their accounting.

Today there is no such unit. Should accountancy everywhere fail for want of a sufficiently stable unit of account, the global economy would fail. Hence the urgency, as he saw it, to set up a unit to which business might flee before that occurred (that is the significance of the book title, *Flight from Inflation*). For a thoughtful discussion of Riegel's ideas, see David Boyle (2003).

Understandably, Riegel's ideas are controversial. They stand alone and have no academic pedigree. In *The Meaning of Money*, however, Riegel debated successfully with Irving Fisher's world authorities on the meaning of money and conclusively showed the lack of any consensus on the subject. Friedrich Hayek, in personal correspondence with Riegel's literary executor and editor, Spencer MacCallum, expressed reservations about Riegel's proposals. Harry Browne in *You Can Profit from a Monetary Crisis* (1974) similarly doubted the workability of a valun system, even while calling *The New Approach to Freedom* "the best explanation of the free market I've seen." On the other hand, James

Peter Warbasse (1946:113), dean of the Cooperative movement in America, endorsed the valun plan.

Riegel's prose is remarkable for its clarity and style; the reader can take pleasure in his crafting of words and simplicity of expression. The substance of his writing above all makes the reader think profoundly about the nature and functions of money. But for an accident of fate, most of the papers containing his writings would have been lost on his death. That story and the little that is known of his family background and life are recounted in the Editorial Preface of his posthumously published *Flight from Inflation*. His writings can be found on the web at several sites: ReinventingMoney.com, NewApproachtoFreedom.info and InspiredConstitution.com.

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