

what cash the government does have is earmarked for foreign creditors. That's politically toxic in a society going through a collapse. For politically weak governments, the temptation to substitute an inflation tax for actual taxes is enormous.¹²

The German Weimar Republic is a very well-documented example of O'Brien's analysis. It emerged in 1919 from the German Empire which lost World War I. Near the end of that war, the German government was ready to crumble. The arrival of American troops and supplies in 1917-18 pushed it to the edge and it approached President Woodrow Wilson to ask him to broker a peace settlement. Wilson had publicly described the kind of peace settlement he thought would be appropriate. The Germans told Wilson that they would accept a peace agreement along those lines. So the victorious allies: France, Britain, Italy, Japan, and the United States met in Versailles and worked out terms that they forced on the Germans. The terms were shocking. They required the Germans to pay millions in reparations and those payments should be in gold or in foreign currency—not in German currency. In addition the Allies took possession of all German colonies, took over the German merchant fleet, and later took over the Ruhr, Germany's mining and industrial region.¹³ These terms clearly could never work. The Germans had no gold or foreign currency, so they defaulted on their reparations payments. For the German people there was no money, so the government printed it. This might have worked but the people by then had no confidence in the German government and soon hyperinflation erupted. Instead of creating a world at peace, the tyranno-capitalists who were in charge created World War II and the Great Depression. Hyperinflation is the result, not the cause, of government failure.

None of this was a surprise. John Maynard Keynes, a British economist who went to Versailles to advise British officials on the economics of the proposed terms, warned that these harsh, draconian terms would impoverish the German people and lead to a generation of German youth who would hate the Allies. He said that the peace terms were nothing more than seeds of war. He resigned from his post as a government advisor and wrote a book, *The Economic Consequences of the Peace*, which became a worldwide best seller. He was right. The Weimar Republic failed catastrophically and provided fertile, prepared ground for the irrational, tyrannical, horrifying ideas of Adolf Hitler.

