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## Rich Man's War, Poor Man's Fight

by Nicholas von Hoffman

Ask George Washington what he thinks about fighting a war on credit. Back in his day, Congress printed money to pay for the Revolutionary War but neglected to tax anybody to back up this funny money of theirs. The bills were called continentals and in due course they lost all their value, hence the once-popular expression, "not worth a continental."

When your money is not worth a continental that means you are suffering from inflation big time. It happened 230 years ago in our War of Independence from the British. We are seeing it beginning to happen now in our war with, well, whoever it is we are fighting. We may not know the names, the whereabouts or the precise whys of the Iraq War but the costs are approaching a trillion dollars.

The Continental Congress was controlled by rich people and rich people do not like to pay taxes. Not then and not now, when we have another Congress controlled by rich people. Different war, same stupidity.

For a long time after the financially disastrous mistakes of the 1776 period, American politicians at least tried to wage pay-as-you-go wars. The Lincoln Administration introduced the first federal income tax in an attempt to pay for the Civil War. It was not enough and thus the greenback, as the paper dollar was called then, rapidly lost buying power (inflation). Gold coins, of course, did not and it was not until a decade or so after the Civil War that the government succeeded in hardening up the greenback and putting it on a par with the gold coin dollar. The hardening was done, however, at great pain to the nation's farmers and factory workers, but ain't that usually the way?

In World Wars I and II enormous efforts were made to pay the costs as the wars were being fought. It was during the Second World War that taxes were first deducted from paychecks. Taxes were hiked very high, particularly on the rich. Perhaps the assumption was that, since they had so much more materially at stake than the other 98 percent of the population and had that much more interest in seeing that the United States won the war, they ought to pay more. A victorious enemy would be confiscating rich people's property, not family farms or factory workers' houses.

Even so, a relentless drive was put on to get everyone to help pay for the conflict. On the home front ceaseless campaigns were conducted to get people to buy US government "War Bonds." Children were encouraged to buy "War Savings Stamps."

Nevertheless, even with so many billions in purchasing power drained out of the economy via taxes and savings, prices still moved up. Inflation stalked the land but not as injuriously as it might have if the country had not been on a pay-as-you-go basis.

At first the Vietnam War was carried out without much deficit spending. When President Lyndon Johnson left office in 1969, he passed on to his successor, Richard Nixon, a more or less balanced budget. Nixon, however, could not or would not hold the line and triggered a war-born inflation that got so bad he tried to impose price controls on the country.

Controls are a poor substitute for prudent financial management. They could not hold back inflation but they contributed to the sense of waste, disorganization and social chaos, which are the handmaids of inflation. It took more than a decade of recession, lower wages and confusion before the ship was righted again.

Now comes Iraq and an Administration which either through miscalculation or doctrinaire bull-headedness has



ignored what every minister of finance from every developed country has known for 150 years. Instead of paying for the war, George W. Bush and his Administration are laboring under the crackpot notion that the Lord will provide. Well, the Lord--or the mechanics of business and finance--is providing and what is being provided are dangerous dollops of inflation.

It would be worse if it weren't for foreign lenders picking up the debts the United States has run up pursuing the terrorist ghost riders. As the buying power of the dollar weakens, fewer of those obliging foreigners will lend us money. They don't want to be paid back with dollars that, ravaged by inflation, are worth less.

The government will have to pay higher interest rates to attract borrowers. There cannot be an adult left in America who hasn't learned what inflation does to one's personal finance.

But not everybody's personal finance. People with lots of money have ways of protecting themselves against the damage inflation does. People without do not. And that may be the basis of the old saying: "rich man's war, poor man's fight."

Nicholas von Hoffman is the author of "*A Devil's Dictionary of Business*," recently published by Nation Books. He is a Pulitzer Prize-winning author of thirteen books, including "*Citizen Cohn*," and a columnist for the *New York Observer*.

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