

## CHAPTER I

### THE PROVISIONAL, PALLIATIVE CURE.

§ 1. **General observations.** I should like to emphasize the fact that the success of any measures depends on the condition that they are adopted generally and simultaneously in all the countries affected by the crisis. Isolated attempts have no prospect of success, on the contrary all such sporadic measures only increase the mistrust and panic in those countries where they have not been adopted, and from these the panic reflects again back on the country which introduced the said measures, with an even greater intensity than before.

An isolated or local struggle against the psychosis of mistrust and anxiety would have the same effect as the determination of each single military unit to wage warfare on its own authority and responsibility, without regard to the necessary co-ordination of all forces under one supreme command. The necessity of international solidarity in the struggle against panic seems self-evident. The Entente Powers have been greatly handicapped during the Great War by the detrimental effect of the lack of co-ordination and of the lack of a single supreme command. A lack of co-ordination in the sphere of economics has the same effect. Nevertheless we see no signs of this solidarity. It is to be regretted that those in possession of political power have apparently learnt nothing from past experience, and that they do not profit from this experience in outlining that psychological and economic strategy which is so urgently required to-day.

It would be wrong to blame either the whole population or single individuals for the present panic or for its symptoms. The fear of a single person that unless he acts the others will do so (for instance in withdrawing deposits), is comprehensible and justifiable. If we are not to succumb to panic, we must have the assurance that the others will have neither the possibility nor the desire to act in a certain way. This possibility may be suppressed by legislative or administrative measures (Government regulations or Acts of Parliament). The desire or will to act in a way, detrimental to the whole, may be suppressed only by the removal of the respective motives (for instance by means of a moratorium). I am therefore of the opinion that the panic may be broken only by *decisive official interference* (acts of sovereignty) and in no other way. Such interference would surely be greeted by everyone and would hardly be interpreted as a restriction of personal liberty. If such measures are not adopted by public authorities, the result will be, not the assurance, but the abuse of liberty. It is difficult to absolve the competent Governments from the blame of not realizing that acts and deeds, which may not appear objectionable in themselves, may lead to serious injuries of society, if they are committed by thousands of people.

For this reason I would advise the constitution of an *International Financial Committee*, with its seat in Switzerland, the duty and aim of which would be the suppression of economic panic. This Committee would deliberate on the question of suitable measures, required for the achievement of this aim, and it would present and recommend the proposals decided upon for acceptance to the various Governments concerned. The legislative and administrative execution of the measures, decided upon by the Committee, would be the concern of these Governments. In this matter the co-operation of all nations could prove most useful; unfortunately much is heard, but little is seen of this co-operation in practice.

It is necessary to act promptly and decisively in order to avoid

consequences which might prove disastrous. I am not going to make any concrete suggestions, yet I should like to point out certain important aspects of this question. The present panic is not an isolated or an uniform phenomenon. The lack of solidarity vacillation, and indecisiveness of official authorities have helped to spread the panic in such a way that in every branch of economic activity it has acquired an independent, special character. Thus we see a panic affecting Bourses and Exchanges and stocks and shares, another kind is the panic of currency, further panic affecting banking and credit, panic of consumption, panic leading to the outflow of capital, fear of inflation or deflation, and — last, not least — political panic from fear of a revolution. To-day one kind of panic predominates, to-morrow another, and in each country a different panic may prevail at the same time.

The above mentioned Committee would have to submit each kind of panic to an expert analysis. The members of this Committee should therefore include not only politicians, but experts as well.

**§ 2. Exchanges and banks.** Whether the general psychological state of anxiety and lack of confidence consists in getting rid of goods, or whether it consists in getting rid of money (panic due to inflation), the defensive battle is always fought on the Bourse or Exchange. There would perhaps be no panic without this platform, where all the distrust and fear find their full expression. In my opinion Bourses and Exchanges are the hotbed of panic and diffidence. As they help to spread the said psychosis of fear and depression all over the world, *in critical times Exchanges ought to be closed*, though of course this closing would have to take place at the right moment and for a time only.

In normal times the aim of the Exchanges is to express the opinion of the economic world on the anticipated development of business, and thus to reflect the general economic atmosphere. The Exchange protects the individual from unscrupulous abuse and from unnecessary losses in business transactions. Every transaction

in normal times has an adequate reason, viz. the legitimate desire of a merchant or producer to buy or sell goods, and the legitimate and real need of the person, desirous of investing his money, of purchasing stocks and shares. These desires and needs provide the guiding criterion of speculation.

In a crisis this mission of the Exchanges fails completely. In the end there is no other sufficient reason for transactions but the circumstance that "others" are acting in the same way (for instance selling their shares), or that others might forestall us in these transactions. In other words, the fear lest someone should forestall us becomes a sufficient reason for transactions on the Exchange, and the policy of the desperate drowning crowd ("*saue qui peut*") gains the upper hand. Instead of acting on the grounds of some adequate, legitimate reason, people are acting on the ground of the authority of those who have forestalled them or who might do so. It may happen that those, who first started the movement, whereby the firm foundations of the Exchange market became undermined, were actuated by legitimate intentions (of preventing excessive speculation), or by less legitimate intentions (of buying the shares prematurely sold at a lower price later on). The persons who are thus posing as the voluntary protectors of economic life, are most often large Capitalists themselves, i. e. the so called leaders of high finance.

Such interventions of these bona fide or alleged benefactors are quite mistaken and useless, if carried out too late, for it is always necessary to remember the old rule of "*principiis obsta*", viz. that it is better to prevent evil than to cure it. In this respect a remedy should be found, for the crash on the American Stock Exchange, which gave the first impulse to the present crisis, was due above all to these belated and too sudden interventions. When the crash on the Exchange breaks out, we are never far from a crisis. The released boulder rolls down the slope, and the hands that released it are unable to stop it. Since even the circles which began the campaign

against excessive bull speculation, i. e. the leaders of high finance, are not always aware of the exact causes of the crisis and of its possible extent, the rule of logical reasoning suddenly gives way to the rule of the authoritative opinion of "others than ourselves".

The weakness of American Exchanges is due to the weakness of European Exchanges, and vice-versa. The estimate of the economic situation is left to the uninformed wide public which is supposed, by its purchases and sales, to express an opinion on a matter which it does not properly understand. For the Exchange is not, as a rule, a barometer showing the situation as it is, but as it will be, and thus it has a *prognostic mission* to fulfill. The need of raw materials felt by manufacturers and merchants and registered by the various Trade Exchanges, is a sufficiently legitimate business motive. But the same cannot be said of the arbitrary action of any person who perhaps is totally ignorant of economic matters, and the action of such a person does not become any more legitimate, if thousands of people act in the same foolish way. And yet an almost prophetic importance is ascribed to the atmosphere of the Exchanges, often caused just by such improvident action. People can for instance become convinced that the economic situation is hopeless, and act accordingly: business on the Exchange then becomes slack and this slackness has a direct influence on other Exchanges and Bourses. This slackness also influences consumption unfavourably, so that proceeds of undertakings decline and the situation grows worse and worse. It is therefore obvious that the rash, and sometimes even foolish, behaviour of people, not sufficiently versed in economic facts, may considerably distort and aggravate the whole economic situation.

Even worse consequences may follow, if the leading position on the Exchange is taken up, not by people who are mistaken in their estimate of the economic situation, but by people who intend to exploit the general excitement in order to cause a panic. The Exchange then becomes the prey of all kinds of wicked speculation.

You may say that this happens only exceptionally. In normal times certainly, for then the legitimate needs and cool common sense predominate, and if any excesses occur, they can be speedily rectified. In normal times the majority of people possessing stocks and shares do not wish to part with them, and thus the surface of the ocean of shares remains fairly smooth and calm, being only slightly ruffled by the small waves, caused by sales and purchases. But if the whole reserve of stocks and shares, negotiated on the Bourse or Exchange, begins to move violently, as if in a tempest or whirlpool, and when presumably the seller has a legitimate reason for selling, whereas in reality he has none, then I think it is difficult to find any justification for a further functioning of the Exchange, and it should be closed.

An eloquent proof of my contention is the general recognition of the fact that panic is largely responsible for the extent of the present crisis. He who denies my thesis concerning the Exchanges, has only two alternatives to choose from: either he may maintain that the low prices would exist even without this panic, which cannot be true, because the prices of shares have not declined in proportion to their lower profitableness, but to a far lower level; or else he may assert that even without the Exchanges there would be a panic, and therefore the prices of shares would have fallen just the same. I deny this, for in what better way could panic have been broadcasted than through the medium of market reports and exchange lists?

It might be also objected that without the Exchange market the purchaser could take an unfair advantage of the helpless situation of the seller. That is a very serious objection, but its justification depends on the bank or corporation the seller would approach with his offer of shares. Apart from the question of choosing a reliable prospective purchaser, we doubt very much that the damage which that person might suffer through such a sale could be greater than that which he must suffer to-day in view of the extremely low

official quotations of the shares on the Exchange. We assume, of course, that the Exchanges should have been closed in time, i. e. long ago. It is certain that some valuation will always take place, but the result of this valuation would be known only to those who are genuinely interested, and the wide public would not be alarmed daily by unfavourable market reports. It is not a question of concealing the true situation from the public, but of preventing excited outsiders from exercising an unfavourable influence on the progress and undue growth of the crisis.

I think therefore that I am justified in concluding that transactions on the Exchange in normal times are based on legitimate reasons, whereas in times of a crisis they are influenced by outside opinion, lacking any legitimate grounds for buying or selling, so that these transactions are in the end carried out, under the influence of a vague general fear and panic, without any adequate reasons at all.

The whole world suddenly becomes transformed into a sinking ship which everybody is trying to leave at the same time. This comparison is inaccurate only in one respect: if such a thing happened at sea, the captain would stand up and threaten to shoot down the undisciplined passengers; whereas in our economic panic not only complete freedom is left to those who want to save themselves (which in itself is of problematic wisdom and costs many people their economic equilibrium), but speculation *à la baisse* is indirectly encouraged. This speculation is as a torpedo fired into the body of the ship of world economy, and builds its success on the economic, and often even on the physical corpses of men. This behaviour during the present crisis has not lasted only a day, but has been going on for over two years!

Would it occur to anyone to speculate during a crisis *à la baisse*, if all Exchanges were closed? Would the man who invested his savings in shares, sell these shares for one tenth of their original value, if such a collapse of their price was not advertised and

endorsed by the official lists of quotations? He would surely reject a similar offer as usurious or as naive. It is only due to panic that a man who was formerly satisfied with a mere profit of 4, 3 or even 2 percent, now does not consider even a prospect of a profit of 10 percent as an adequate return to induce him to keep his shares. And the mere fact that he sees how his property is dwindling down to a mere fragment of his former property, compels everyone to restrict his consumption as much as possible. The crisis becomes only aggravated thereby, for this restriction of consumption weakens production, destroys its output and depreciates all other property.

These activities of the Exchanges are also responsible for the present *situation of the banks*, which is far from satisfactory, since on one hand the banks must show in their balance sheets the same liabilities as before, whereas on the other hand their assets include shares, the value of which can be put down only in accordance with the low official Exchange quotations, as well as claims, a part of which is of doubtful value and may turn into bad debts. All this creates serious disturbances and leads to the breakdown even of very strong institutions. Moreover, it introduces an atmosphere of mistrust into the whole credit system, culminating in frequent runs on banks. Should this state of affairs continue to last much longer, it might lead to the breakdown of our whole economic system. If it was not for the Bourses and Exchanges, the prices of shares would never have sunk so low.

It might be worth our consideration, whether the banking and credit institutions could not be helped by being allowed, for a period of transition, to state in their balance sheets the value of such shares, the solidity of which is beyond question, not according to the temporary mood of the Exchanges and according to their official quotations, but at a slightly higher price, fixed according to the real profitableness of the undertakings. This measure would be all the more justifiable, as the banks are now often the sole owners



of such shares, as there are many first class undertakings, showing a very good productiveness despite the low price of their shares, and as this would be the most suitable method for fixing the prices of shares, should the Exchanges be closed for some time.

All this is, I think, another strong reason in support of my proposal that all the Exchanges and Bourses should be closed simultaneously. If only some of them were closed, or if they were closed one after the other, more harm than good would be done. If only some Exchanges were closed, the panic in the remaining ones would only increase. At the same time it would be necessary to suppress all the underground Exchanges and all publication of reports about private deals and transactions. Finally, it would be necessary, so far as it is not practised already, to prohibit all purchases and sales of foreign money and foreign bills for purposes of speculation by means of suitable exchange regulations.

**§ 3. Questions of currency.** Before examining the question of counteracting the panic due to the movement of capital and to the fluctuations of the rates of exchange of the various currencies, let us look into the problem of the *accumulation of gold* from the general point of view.

Before the War there was no special lack of gold anywhere, nor any desire for accumulating large reserves of gold. The reasons for this relatively even distribution of gold will become clear if we examine, why this equilibrium has been disturbed since the War, and why gold began to accumulate in certain countries. Speaking generally, the main reason for this purely post-war phenomenon is partly the unfavourable state of the balance of payments of many countries, partly the fact that short-term credits have, especially in recent times, gained a predominance over long-term investments, which also constitutes a menace to the stability of the balance of payments. The result is a continuous movement of capital from one place to another, exposing the equilibrium of the balance of payments to constant shocks. The first reason (defi-

ciency of the balance of payments) may be explained by the unsatisfactory financial situation of some countries, due to their foreign indebtedness (especially to their war debts), the second reason (short-term loans) is the outcome of a general lack of confidence which discourages capitalists from lending their capital on long terms.

Let us only examine the special reasons which caused the present accumulation of gold in France and in the United States of America. Most of the gold moved to the *United States*, because gold is the most suitable means for settling the adverse balance of the balance of payments. This movement was stimulated also by the flight of capital from Europe and by investments in the stocks and shares of America. On the other hand *France* acquired her present large gold treasure much later. This accumulation was caused partly by the return of capital which fled from the country during the French currency crisis, partly by the fact that the French balance of payments was continuously favourable, showing an annual surplus of receipts, and finally also by the fact that foreign capital sought investment (through purchases of stocks and shares) in France as a manifestly flourishing country. The considerable accumulation of gold in France is closely connected with the traditional policy of the Banque de France which has always had a larger gold reserve (and at the same time a larger amount of notes in circulation) than other banks of issue, especially in those countries, where cheques are widely used instead of cash.

All these causes of gold accumulation may be divided into two categories. The first category includes causes due to the *wealth* of the particular country, i. e. the favourable state of its financial situation and of its balance of payments; the second category includes causes due to the *lack of confidence* in the financial situation of other countries with inadequate reserves of gold and a precarious state of their balance of payment. The unequal distribution of gold may be explained partly by the *financial incapacity* of the poor

countries, partly by the *reluctance* of the wealthy nations, due to a lack of confidence, to lend their money to the poor nations, in other words it is a question of financial capacity and of good will. These reasons are therefore on the whole similar to those which led to the crisis.

As we have explained in the first Section of this work (on p. 36), the growing wealth of one nation and the impoverishment of another falls into the category of the results of *dynamic inequality*, in so far as abnormally low consumption (underconsumption) on one side is not counterbalanced by abnormally high consumption (overconsumption) on the other. The only difference is that in this case dynamic inequality does not work in favour or to the detriment of single individuals, but of whole nations. As to the *lack of confidence*, it is one of those psychological reasons which caused the present crisis.

I do not think that the accumulation of gold is the result of any grand and well prepared schemes. Accumulation of gold at any rate is by far not so detrimental as it is generally supposed to be, although I do not deny that it has a certain detrimental effect, especially where currency questions are concerned. It seems of course that the consequences of the uneven distribution of gold must be very serious, if we consider that even here, where the need of gold is concerned, we have on one hand saturated nations, and on the other exhausted nations. Since gold is an instrument of credit policy, those countries which do not possess much gold should have been the first to adopt deflation measures in respect of credits. But this assumption is not endorsed by experience, for the countries with small reserves of gold have meanwhile adopted, instead of the pre-war pure gold currency, the so called gold exchange standard. This system admits of fairly small reserves of bullion, for it provides for the inclusion of first-class foreign bills and cheques (foreign claims) in the so called gold or metallic cover. In this way these countries found a substitute for gold, and their

lack of gold did not induce them to adopt a deflation credit policy, but on the contrary made them pursue a completely opposite policy. The "gold exchange standard" was even blamed for supporting credit inflation by the alleged extension of several credits against the security of one and the same foreign claim.

The situation changed considerably in consequence of the lack of confidence which spread in recent times. It is certainly only a sign of lack of confidence if banks of issue now demand payment in actual gold. At any rate capital, flowing out of the country for investment abroad, also contributes towards the accumulation of gold in financially strong countries, for it contributes to swell the receipts of their balance of payments. This flight of capital is only another sign of the lack of confidence in the country from which it is fleeing. The problem of the accumulation of gold is thus clearly a part of the complex of a general morbid fear and lack of confidence.

Nevertheless it has become fashionable to see in the problem of gold the central problem of the crisis, and in the accumulation of gold in the vaults of a few central banks of issue the root of all evil. People consider *England* the poor victim of this wicked policy of gold accumulation. In England they even invented a special word for this "root of all evil". They call it the "*sterilization of gold*", implying that gold has lost its utility through lying idly in large quantities in the vaults of a few banks of issue.

What the upholders of this theory are really driving at, is not quite clear to me. Gold has a double function to perform: it either serves as a security, or else as a reserve or cover. Both these functions have one aim in view, viz. the protection of banknotes from depreciation, which is done in two directions. In the first place it is necessary that the amount of notes in circulation be secured by any kind of property whatever. Secondly it is necessary that the claim or title based on the banknote should be realizable at any time, in other words that the banknote should be exchangeable

for coin, and for this the bank needs certain reserves of specie. The difference between these two functions will become clear if we remember that, however great may be the security, the banknote cannot be protected from depreciation, if it is not exchangeable in case of necessity. Securities must provide a cover for the whole amount of notes in circulation, whereas the exchangeability of notes is sufficiently provided for even by a smaller amount, in fact by only a portion of the amount in circulation, since only a small part of the banknotes normally returns for exchange. Besides, as we have pointed out, security may include property of any kind, whereas reserves must consist of cash.

Gold may perform both these functions. As cash or ready money it serves as a reserve, and at the same time as substance or property it serves as security. A relatively small part of the total amount of notes in circulation is sufficient as a gold reserve or cover. The same amount of gold, however, is sufficient also as security, for the rest of security is provided by other kinds of property, viz. by the so called bank cover (bills of exchange, stocks and shares held as securities etc.). In all systems of banknote currency a certain relation between the gold cover and the notes in circulation is guaranteed by law, though the legal provisions in various countries differ. It follows from this that the extent of the issue of banknotes and the extent of the credit which the bank shall or can grant, depend on the size of the gold reserve. On the size of the gold reserve depends also the ability of the country to meet its liabilities resulting from a possible deficiency of the balance of payments, after all other sources of receipts, such as bills for exported goods, receipts from shipping and other services, dividends etc., had been exhausted. Since gold can have no other function except those mentioned above, I really do not see how the faulty distribution of gold could have been the main cause of the present crisis, for the lack of gold in some countries would have had to lead to the restriction of credit. That does not mean to say that the

accumulation of gold is right, for it is an obvious waste of its organizing function which is frustrated thereby.

If the price of gold was rising, it would have to manifest itself in one way or another. Since gold is not exchanged for goods directly, and since the relation of money to gold is fixed by law, a change in the relation of the value of gold to that of other commodities could not manifest itself in prices first, but only indirectly through the issue of banknotes and through a more stringent credit policy. I did not ascertain any of these manifestations.

The *crisis of the English currency* had purely local causes, only indirectly connected with the world crisis. England contracted short-term loans in France, whereas at the same time she extended long-term credits to Germany, or at any rate credits which could not be recalled when due, in view of the respite granted in the matter of the repayment of these credits. In this way England got into the same trouble as a banker who is unable to preserve equilibrium between short-term deposits and long-term or frozen loans.

The events which followed the English currency crisis, were not far from a general currency panic. Banks of issue insisted that foreign bills against countries with a gold standard be paid in gold, and thereby they gave a bad example to capital, which began to flow out of one country into another, thus causing further complications. This process may be compared to the proceeding of a man who, after depositing a considerable amount in a bank, begins to draw out his money as soon as the bank becomes somewhat less solvent, and repeats his proceeding, so that the bank is faced with ever growing difficulties. There is no bank in the world that could stand such a strain and pay back all the deposits at a minute's notice simultaneously, however good its solvency might be.

To prevent a repetition of such a currency panic I would recommend the following measures:

a) All banks of issue should for a time include also first-class foreign bills in their metallic cover;

b) Provisions concerning the obligatory gold cover should provisionally be modified; and

c) Any speculation with foreign exchanges should be prohibited.

Thus we come once more to the question of the *gold standard*. In this connection I must emphasize that I consider the campaign which has of late been waged against gold as a security for money, i. e. as a basis of currency, as erroneous. Gold has become the sacrificial lamb for the atonement of all sins committed in economic life for the past century. Nobody wants to abolish money, but people want to abolish gold as its foundation. Is there a hope that a commodity will be found which will possess a more stable value than gold? It is true that only technical reasons (its easy divisibility, its durability etc.) have made gold the most suitable medium for monetary purposes. But which other commodity possesses similar qualities? Gold as a basis of currency would be jeopardized only if a cheap chemical process of producing it were found, or if excessively rich gold mines were discovered, as it happened in the case of silver. None of these dangers exists so far, on the contrary gold is attacked on account of its alleged scarcity and appreciation. If, instead of ungratefully abandoning the idea of the gold standard, we would take definite and immediate steps towards restoring mutual confidence (by fighting the panic, by granting moratoriums etc.), gold would soon cease to be the object of hoarding. Even when the exchangeableness of banknotes for gold is fully guaranteed, every banknote is not covered by gold, and if therefore everyone holding a banknote were to demand gold in its exchange, no "pure" gold currency could continue to exist.

The same applies to *foreign bills*. If gold was demanded in exchange for every foreign bill of exchange or cheque, gold would have to move from one place to another all the time. That would not only be uneconomical, for the balance of payments fluctuates all the time, so that gold received one day might have to be sent back the next; but it would also be opposed to the very principle of

economy and would be directly detrimental. The so called "gold exchange standard" is not faulty in principle; faulty is only its abuse, i. e. the granting of several loans against the security of one and the same foreign claim, for that is conducive to credit inflation. But should in a currency panic all other measures fail, it would be far better to grant a *temporary moratorium* on all payments in gold instead of abandoning the gold standard altogether. A moratorium, granted to one country only, might undermine its credit, but if it were extended to all countries, nobody would come to any grief. Everybody is at liberty either to walk across or to stop in the middle of a bridge, even if it is only made of wood. But if the bridge afforded a special opportunity of seeing some attractive event, and if all people rushed to get on the bridge, the authorities would not hesitate and would rightly forbid people to stop on it, lest it should give way and break down. It is equally unreasonable to leave the present general panic and unrest free play and license. It is utterly incomprehensible how it is possible to tolerate so many things under the pretext of freedom ("laissez faire, laissez passer"). The population of the world would surely willingly submit to certain limitations of this mistaken "freedom" in the interests of mankind, if it were properly instructed on the merits of such measures, for it is always better to submit to minor limitations than to suffer a serious loss.

**§ 4. Stimulation of consumption.** A more harmful watchword has never been invented in serious times than the *watchword* of "*Save*", promoted during the present crisis. "A proposal that everybody should save is pure nonsense", says Bernard Shaw in his "*Intelligent Woman's Guide to Socialism and Capitalism*", and the same reasons which he gives for this statement are applicable to the present crisis. The present crisis being a crisis of consumption, every attempt at a restriction of ultimate consumption must aggravate it. "Saving" can only be achieved at the expense of ultimate consumption, and must therefore lead to its



restriction. This applies especially to private economy, for "saving" in public expenditure in critical times is dictated purely by necessity (i. e. by the necessity of adapting expenditure to smaller revenue), and is not a question of expediency or in expediency. Undoubtedly even the State and the local autonomous bodies would be welcome consumers, but in critical times their revenue usually declines and the raising of taxation is impossible. It is therefore the duty of the wealthy classes to spend their incomes to the same extent as hitherto, and not to restrict their normal consumption.

It is a sin and a fallacy to say that in a crisis thrift is a virtue, if not a duty. All such money saved contributes to capitalization which we do not need at present. On the contrary, no opportunity should be missed of encouraging people, who are able to do so, to spend and *consume as usual*. Lectures, propaganda through the press and by means of broadcasting, and all similar means should be used in the service of this idea. In the same way as it became a household word in England to "Buy British", it should become a household word throughout the world to "consume as usual". This would not only result in the subsiding of the panic (for psychological reasons), but also in a stimulation of consumption which in itself would mean a positive alleviation of the crisis. To preserve the normal state of consumption and to stimulate consumption is more than a patriotic duty: it is a duty to mankind, for the welfare of all mankind is at stake.

Another important point is the question of *disarmament*. Restriction of consumption, of whatever kind it may be, is in these days a sin against the welfare of society. For this reason complete disarmament at the present moment would do more harm than good, however much we might be prepared to greet it in the interests of humanity, since armaments are serving a purpose detrimental to the interests of mankind and at any rate purely unproductive. But to-day we must be glad of any kind of employment, even if it entails unproductive or useless work, and therefore also of the

opportunity of work offered by the manufacture of armaments. We must remember that this crisis is not due to any lack of products, but to a lack of opportunities of work, and nothing would be therefore gained at present by the production of other goods instead of munitions. It is true that expenditure necessitated by armaments represents a burden for the Budget, but if the manufacture of armaments was suddenly stopped and this expenditure cancelled, the Budget would have to reckon with another burden instead in the form of unemployment doles.

For this reason I consider that the American standpoint, which makes the question of the granting of a longer moratorium dependent on the immediate and total disarmament of Europe, is based on completely mistaken ideas as to the origin of the present crisis. It is not only expedient, but even imperative to carry out disarmament, but it must be carried out gradually, so that labour, now employed in the manufacture of armaments, may at the same time find a new, more useful and productive occupation.

Other important points connected with the question of the stimulation of consumption, are the *sterilization of bank deposits, inflation and retail prices*. We have already shown that it is incorrect to speak of the "sterilization of gold". It is not gold that is sterilized, but rather money, which people hoard at home or store in bank deposits, without disposing of it in any way. This money represents for instance proceeds from the sales of stocks and shares. A mobilization, even if only partial, of this cash for fresh orders and for consumption in general, would greatly alleviate the situation.

Consumption could also receive a fresh stimulus, if faced with the danger of inflation. This happened actually in England during the crisis of the English pound sterling. Whereas up to then everybody tried to get rid of goods in preference to money, the tendency became reversed when the pound went down. But inflation is always a dangerous experiment, and brings only an apparent

profit to production, as long as it proceeds dynamically (i. e. as long as it is moving). This profit disappears as soon as inflation stops. That is true especially of inflation which constitutes an export bounty and an impediment to importation. Even this temporary effect is lost, however, if other countries start to depreciate their currency too. At any rate the experience made with inflation after the War is so eloquent of its harmful effects, that this question needs no further elaboration.

An excellent and very sound stimulation of consumption could be achieved, however, if a stricter control of retail prices were introduced. For it is a well known fact that the small consumer profited very little from the tremendous decline of prices, for this decline affected above all wholesale prices.

**§ 5. Moratorium.** No economically thinking person can object to the proposal of deferring the payment of war debts (i. e. Inter-Ally debts and reparations) to some future date. The problem of international indebtedness is one of the most complicated economic problems of our days. We have seen that the repayment of international debts has much in common with instalment business: the creditor is destroying his own future consumer.

But this is not the only difficulty. In former times, when comparatively small sums were involved, debts were settled in gold, or even in other commodities. To-day every country is on the defensive against the influx of foreign goods and services, and the debtors have no gold to pay with.

I think therefore that the creditor nations themselves will insist on the payment of interest and amortisation (sinking fund annuities) for some limited space of time only. Later on they themselves will be interested in the complete remission of these debts of nations, who are also their customers. On the other hand it is easily comprehensible that it is difficult to prevail upon the creditors to reduce or remit these debts now, for the claims rely on indisputable legal engagements ("the sanctity of Treaty obligations") whereas the

only reasons against the fulfilment of these financial obligations are reasons of common sense and of economic expedience.

Nevertheless I think that the reasons in favour of a *longer respite* for the payment of these debts are so eloquent and convincing that the opponents of a long moratorium will hardly be able to hold their own. In the first place the world needs peace and calm. If a patient suffers from high temperature, he should not be disturbed unnecessarily. *Quieta non movere*. Hoarding of gold, flight of capital, currency difficulties and other similar phenomena have been caused above all by international indebtedness (reparations, war debts etc.), which always means a disturbance of international trade relations and leads to various further complications. I fear that without the said moratorium we shall hardly arrive at a pacification of the world in questions of currency, in the question of the accumulation and distribution of gold, and in the question of the outflow of capital from one country to another.

The system of world economic organism is built upon *mutual confidence*, and without this confidence it must collapse. We must never forget this, for it applies not only to international relations, but also to bank deposits, to the cover of banknotes in circulation and to the security of currency in general. Either the individual must be deprived of freedom and liberty to dispose of his property (to withdraw deposits, to send capital out of the country, to change foreign money for speculation etc.), or else confidence must be restored. Otherwise it will be impossible to avert a general economic collapse. Full freedom without the re-establishment of confidence is equally as senseless as the restriction of freedom, after confidence has been restored.

**§ 6. The problem of unemployment.** In this connection I want to deal with this problem only from the point of view of an immediate, provisional solution, whereas the definite solution will be discussed in the next chapter.

It is not only inhuman, but also impossible to leave the un-

employed in these difficult times to look after themselves, or to leave them to the care of charity. It is estimated that from 40 to 60 million persons are now living below the minimum standard of health throughout the world owing to unemployment, part-time work and wage-cuts. On the other hand it is undeniable that the method of paying relief in unemployment (doles), or of providing *emergency work* for the unemployed is a serious burden for the Exchequer. I heard in England that an unemployed workman, engaged in emergency work, costs the Government twice as much as an unemployed workman drawing a dole. That is certainly a serious question, but it only confirms my contention that an unemployed workman, drawing a dole, is at best only half a consumer. Despite the adverse experience from the point of view of public finance, made in this respect in England, I think we should insist on the principle that nobody, receiving relief, should be left without some work or occupation. In the first place it is very humiliating for an able-bodied, healthy man, willing to work, to receive unemployment relief for doing no work. Such relief appertains only to disabled men. Secondly this method is most demoralizing, for it enables persons who do not like to work, to refuse work, not lucrative enough, in preference to life in idleness. The general obligation of all people to work is the finest and ethically soundest arrangement in Soviet Russia, which the Capitalist world might copy without shame or detriment.

It is also necessary to consider that unemployment is not a temporary phenomenon, but that it is of a chronic nature and likely to exist for some time to come. To describe unemployment as a mere sign of temporary trade depression and to think that it will soon pass, is a mistaken and dangerous notion. It is therefore necessary to adopt also different measures than would be required for a cure of a temporary evil.

I am of the opinion that the best solution of the problem would be the drawing of an extensive plan of work of public utility (an

economic plan in the strict sense of the word) which would be carried out according to its importance and according to the extent to which private economic life could dispense with labour by discharging it from regular occupation. Thus there would be a large reservoir of possibilities and opportunities of work (reserve labour possibilities), which could be utilized according to circumstances. It is, however, certain that the present resources of Governments would hardly suffice for the execution of such a plan, and it must be also doubted, whether adequate means could be obtained from the economic organism in the ordinary way alone, i. e. through taxation. Considering the experience made in England, it would seem that the above plan is hardly practicable at present without serious injury to public finance. As it seems hardly suitable as a provisional measure, we shall discuss its expedience and practicability in the next chapter, dealing with the definite cure of the crisis.

If the immediate execution of this extensive plan meets with insurmountable obstacles, and if on the other hand there are very good reasons against the payment of unemployment doles without any obligatory work, the only possible solution must be based on the following principles: 1) that no relief shall be paid without obligation to work; and 2) that the wants of the unemployed shall be satisfied in the cheapest and best possible way. In other words, if any large and extensive work according to a definite plan cannot be carried out at present, let us, for the time being, provide the cheapest kind of emergency work in order to save the unemployed from idleness. The cost of this scheme can be reduced to the utmost minimum in a way which we are now about to explain.

It is an indisputable fact that the provision of wants by an individual is proportionately much dearer and less efficient than if carried out collectively. An attempt might therefore be made at providing at least some of the wants (food, clothes, lodging etc.) of the unemployed in kind and collectively from public funds. It is for instance known that in the United States unemployed without

a fixed abode are lodged in barracks and other public buildings. It would be possible to try and provide the unemployed with meals with the aid of large public kitchens, for in this way they could get more plentiful and more nourishing food than they can buy out of their doles. This *collective accomodation* for providing meals is widely used in Russia and is said to work well.

It must, of course, be remembered that all these measures are only provisional, aimed at alleviating the present distress, until more radical treatment can be applied to effect a permanent cure. How this could be done is discussed in the next chapter.