

CHAPTER II

THE DEFINITE CURE OF THE CRISIS.

§ 1. **General observations.** Let us now examine the measures which should be adopted to effect a permanent cure of the crisis and to prevent its repetition in the future. For the same reasons as in the case of the palliative measures, discussed in the previous chapter, it is necessary that the cure of the very substance of the crisis, i. e. the definite cure, should be carried out collectively and, as far as possible, uniformly by all nations. It is true that in the Middle Ages, and even later on, every State was to some extent a world in itself. This state of affairs has changed completely in modern times, especially owing to the progress of means of transport, whereby all the nations of the world of to-day are more closely linked together into an organic whole than many a mediaeval State. There are no countries so distant from each other to-day that they could afford to ignore each other; all nations are as interdependent and as closely related as if they were direct neighbours, and a fire in the house of one of them is a direct menace to all the others.

All the most competent men of the world ought to meet therefore, including not only politicians, but also theoretical and practical economic experts, in order to consult and decide on the measures to be adopted for raising the welfare of mankind by the suppression of the present crisis and by a prevention of similar calamities in the future. Conferences of politicians, however good their intentions may be, can only lead to a general resolution that the crisis should

be suppressed by international co-operation, but they can never provide a practical solution.

The question as to who should participate in such an *International Economic Conference* and what its program should be, is a question of detail into which we do not propose to go. But I should like to emphasize that it ought to be convoked as soon as possible, for its task would be stupendous and the problem is as urgent as ever.

§ 2. Reform of the Capitalist method of distribution. This problem forms the gist of the whole question of a general reform of the Capitalist system. In this connection it is important to remember the difference between the dynamic and the static inequality of income. The most urgent problem, requiring an immediate solution, is the problem of *dynamic inequality*, for it is undermining the very foundations of the Capitalist system. This dynamic inequality manifests itself in two ways, viz. incidentally and intentionally.

In the first case it is of such a nature that it is impossible to ascribe the responsibility for its effects either to the evil intent or to the fault of anybody. It cannot therefore be stopped by any rules or regulations, for it would be necessary to prohibit all technical progress and all inventions. This is the problem of rationalization and of unemployment which it implies.

The second case, viz. that of *intentional, culpable inequality* is due to that kind of human egoism which is devoid of any scruples, whenever its own interests and profit are concerned. This egoism is prepared to lay no matter how great a burden on society as a whole, as long as it achieves no matter how small a profit for itself. This category includes certain kinds of speculation on the Exchange or with foreign money, and the consequences of such behaviour, i. e. the financial ruination, not of those who speculate, but of those who become their victims. During a speculation *à la baisse* for instance, the person who speculates may make a profit, whereas an ordinary shareholder is left with depreciated shares on his hands. Or, a

currency may be entirely subversed through foreign speculation, whereby the savings of those who had nothing to do with the speculation and to whom not the least blame can attach, are completely ruined. In these cases dynamic inequality is not due to circumstances inherent in Capitalism, as in the case of unemployment, but to a definite culpability, even though it is not so far punishable under the existing criminal law. In this respect then a legislative and administrative regulation could intervene and prevent many improprieties, whereas in the first case of incidental dynamic inequality it is hardly possible, as this inequality is inherent in the very substance of Capitalism.

In both these cases the described process — though unimpeachable from the legal point of view — figuratively speaking resembles a rapidly revolving centrifugal machine, casting off all weaker elements from the solid mass of consumers (turning them thereby into non-consumers), and on the other hand solidifying the accumulated mass of the consumption power of the strong elements at an ever increasing speed and to an ever growing extent.

a) Remedy of culpable dynamic inequality.

A remedy for this second kind of dynamic inequality of income is not far to seek. The closing of the Bourses and Exchanges, or at any rate a threat to that effect, a better control and a stricter application of existing regulations, would surely have the desired beneficial effect. The suppression of this kind of dynamic inequality would not meet with special obstacles, for this culpable, intentional inequality is not immanent in Capitalism, but is only caused by either direct or indirect evil intent or negligence. It is therefore possible to counteract and suppress it through legislative and administrative measures.

b) Remedy of unintentional inequality.

We are confronted with a much more difficult task, when dealing with the problem of incidental, unintentional inequality,

immanent in Capitalism. In this connection we can first of all recall our proposal of a definite plan of *reserve labour possibilities*, i. e. the scheme of providing extensive work of public utility for the unemployed (p. 111). It can be hardly denied that its realization would require richer sources of revenue than we dispose of to-day.

Another proposed reform is that of a *reduction of working hours*. Even this proposal has its merits, provided labour is paid the same wages for this part-time work as for full-time work, for otherwise wages, restricted to correspond with the restriction of working hours, would be considered insufficient by the workers and they would strike to obtain unrestricted wages again. In other words the result for the undertaking would be the same as if the existing smaller number of workers was accorded a rise in wages, corresponding to the extra amount paid to additional labour which would have to be employed in case of part-time work to secure the same output as before. In both cases it would involve higher cost of production. Two alternatives would then be possible: either the prices of products would rise, and the effect would be felt by the working man, not as agent of production, but as consumer (for his real wages would decline, though remaining nominally the same), in which case we should be faced with new disturbances (strikes); or the whole burden would be borne by the business undertaker, as far as his surplus would permit. If the producers decided that they would be willing and able to make this sacrifice, this sacrifice would not probably differ much from that required by the plan of reserve labour possibilities. This latter plan, however, has the advantage of greater elasticity, for its extent would depend on the reserve of superfluous labour discharged by private enterprise; it would lead to a more organic utilization of labour by the State according to a definite plan (building of waterways, roads, railways etc.), and finally it would have the advantage not only of enabling private enterprise to continue its regular production, but also of providing for work of public utility in the general interests

of society as a whole. This advantage would not attach to the shortening of working hours, as it would dispense with this complementary work of public utility. On the other hand the plan of reserve labour possibilities has the apparent disadvantage of being unable to use labour skilled in one branch for work of another kind; in other words, only such work could be undertaken which does not require skilled labour to a great extent. Moreover, an interruption of this work as soon as the trade cycle should begin to rise and absorb part of this reserve labour, would lead to expense and complications. But the greatest difficulty of this plan of work of public utility, organized by the Government, would be the provision of adequate means for defraying the cost connected with it.

A very important argument *against the proposal of a reduction of working hours* with uncut wages is this: Overproduction, apparently existing at present, is only relative. If we put a brake on the progress of production by shortening the working hours, we shall assume the existence of absolute overproduction, not of relative overproduction, implying that we have no use of any further development of production, or, in other words, that consumption is fully saturated. Thus we would indirectly imply that there is for example an adequate number of motor cars in the world, whereas only America has several millions, Europe many millions less and Asia almost none. This assumption would evidently be incorrect, for as a matter of fact we could find good use for many more motor cars. The real limit, beyond which further production would be undesirable, could be determined in two ways: a) a further production of motor cars would become useless if the consumption of cars was absolutely saturated by existing production (this absolute saturation is obviously still far from being accomplished); or, b) if another kind of commodity would become relatively more necessary, in which case naturally every opportunity would have to be utilized to enlarge production in such a way as to provide a greater supply of that relatively more necessary commodity.

This limit has hardly been reached yet. The best proof is the effort at a reduction of working hours, implying that a development of production is considered unnecessary. If this limit had been reached, it might not be necessary to develop the production of motor cars, but every liberation of labour would be welcome to the production of other more necessary products. If we are renouncing this opportunity, we are indirectly admitting that there is no such need of other commodities. If this need does not exist, and if the absolute limit of saturated consumption has not been reached, it follows that we ought to continue to develop, or use the full capacity of, the manufacture of motor cars. We are not doing it, because we are renouncing this opportunity by adopting part-time work, and thus we are, without any justification, asserting that we have no use for full-time capacity. The intention of reducing working hours is thus only a proof that there is no need of developing present production, as long as the present method of distribution exists.

The problem of the quantity of goods to be produced is thus closely connected with the problem of *static inequality* of income. It would be a grateful task of those who will deliberate in conference on the necessary reforms of the Capitalist order, to examine this problem in detail. But its solution is not by far as important or as acute as the problem of *dynamic inequality*. The consumption power of which production is deprived through static inequality, represents only a negative loss (*lucrum cessans*), since production could increase its surplus and profit, if it could count on this consumption power; but it does not count on it, is not equipped for it, and therefore does not suffer any positive loss (*damnum emergens*). This positive loss results only from dynamic inequality, and the reforms proposed must above all aim at the suppression of this latter inequality.

We have examined the question of the shortening of working hours from the standpoint of saturated consumption. Now let us

regard it from the standpoint of the permanent effect of the cure. It is clear that from this standpoint it is not a satisfactory solution, for it can be regarded only as a provisional, but *never as a definite remedy*, and as such it does not represent a solution, but only an adjournment of solution.

A reduction of working hours cannot stop the progress of rationalization. This progress will continue, and after a time the problem of unemployment will again present itself. It would then become necessary to reduce the working hours anew, or else we would be faced with the same situation as to-day. But if we reduce the working hours still further, then it is obvious that after a time we shall arrive at a stage when, in consequence of utmost rationalization, working hours will be gradually reduced to an extremely low degree. You may say that this would be a welcome result, as men should thus be released from the burden of work and toil. This would be true, provided the saturation of consumption, achievable under the present conditions, were absolute. But such an absolute saturation has by far not been achieved yet. It would be premature to arrest a further growth of production by reducing the working hours before production had developed sufficiently for an absolute saturation of consumption. The extent of production would be prematurely petrified. We would be in the situation of a man who would rather go without his food than work, or of a man who would rather stop below a mountain than walk on top of it to get a beautiful view, or of a man who foregoes all pleasures to avoid pain which the achievement of such pleasures would entail. In other words, all the advantages, implied in technical progress and rationalization, would be utilized for reducing the working hours. But the increase of leisure beyond a certain point is obviously mischievous from the standpoint of society, as well as economically unsound. Mankind would, artificially and quite unnecessarily, be obliged to live in privation and poverty, so that we might say that the increase of leisure had been provided, not to give people time for rest,

but to give them time to think on the iniquity of living in poverty. Under present conditions any reduction of working hours below seven hours a day must be considered mischievous. When absolute saturation of consumption will have been reached, it will be possible to commence with the reduction of working hours, and this reduction will continue, as long as the utility resulting from shorter hours will outweigh the detriment accruing from reduced production, until an equilibrium between both is achieved.

In short the usual calculation of profit applies also to our case. Society in its institutions must be led by the same considerations as an individual. An individual tries to achieve maximum pleasure at the cost of minimum pain; society again is concerned with the good of society as a whole, which should outweigh the social sacrifices necessary to its achievement. In both categories we measure utility or detriment either with a view to the subjective supreme postulate of personal satisfaction, or with a view to the objective postulate of the social ideal of man.

There is no objection to the proposal of a reduction of working time to seven hours a day, if conceived as a provisional measure. But how long shall we be able to sacrifice one productive hour daily? Surely not for long, and then the same story may repeat itself as before. Figuratively speaking, production will again have prepared a dinner for a hundred people, but only ninety of the expected guests will turn up, because the remaining ten will have no invitation cards (money income) and will therefore have to stop outside. The complaints of these ten, suffering from lack of food, will be accompanied by the perplexity of those who will have too much food and will therefore be in danger of overeating. An unbiased observer might be astonished at these foolish complaints and at the perplexity of these people, but he would be even more astonished to hear the proposals made for the removal of these difficulties. Thus some propose the destruction of superfluous food (coffee, cotton), others again advise everyone to eat as little as

possible in view of the difficult times (propaganda in favour of saving). None of the guests is reasonable enough to suggest a way, whereby those ten starving guests, waiting in the hall, could partake of the abundant meal on the dinner table.

To sum up, if we tried to solve the crisis only by the shortening of the working hours, dynamic inequality would appear again after a time. This inequality may also become aggravated by the increased distress of small tradesmen, deprived of work by machine manufacture.

c) Definite cure of dynamic inequality: the plan of reserve labour possibilities.

All this shows how important and necessary it is to find a suitable remedy, providing not a provisional, but a definite cure, as well as an opportunity for really useful work. The only definite solution of this kind appears to me to be the proposal of an economic plan for the utilization of labour reserves, i. e. for the creation of reserve possibilities of work. The plan would be carried out only gradually, according to the extent to which superfluous labour would be available at the time, after being released by private enterprise in consequence of rationalization and trade depression. This plan does not therefore mean anything but differentiation, and a moderate, evolutionary and partial *transformation of Private Capitalism into State Capitalism* (not, of course, identical with Socialism or Communism). The extent of this transformation, hardly felt by private enterprise and carried out peacefully and without a revolution, will depend on the extent of labour reserves which private enterprise will be able to dispense with.

The success of this plan would depend on certain conditions. Thus in the first place the *methods of State enterprise* would have to undergo a radical change. Business undertakings run by the State (such as railways on the Continent to-day) would have to be managed in a business-like, and not in a bureaucratic manner. The

managing staff would have to possess the greatest freedom of initiative and enterprise. These managers and their subordinates should not be given their posts for life, but only for so long as they proved their capacity and worked efficiently. The permanence of leading official posts, political favouritism, excessive red tape, undermining all initiative and enterprise — all these existing conditions are only premiums on incapacity, indolence, inelasticity and other similar qualities, notoriously attaching to State enterprise at present. The remunerations of most of the functionaries would have to correspond to their capacities and to the profitableness of the enterprise run by them, in the same way as it happens in private enterprise (efficiency premiums, extra pay).

Secondly *the extent of the activities* of this State Capitalism would have to be as wide as possible. Extensive work of public utility (such as electrification on a world scale) would provide a suitable basis of such a bold plan.

Finally, the provision of funds required to defray the cost of this scheme and its execution *should not be confined to one country only*. Analogous measures would have to be carried out by all nations, because the execution of the scheme would involve certain, though purely negative, handicaps for various industries, and its adoption by one nation only would therefore influence the competitive capacity of that particular nation unfavourably. For this reason this scheme cannot be put into operation except through international agreement.

The greatest difficulty is, as I have observed before, the question of finding the means for *defraying the cost* of this plan. I have tried to solve the problem in a way which would bring the causes of unemployment into an organic relation to the provision of means required for its suppression, for only such a solution offers a guarantee of obtaining these means without serious disturbances to economic life. Should we try to obtain these means in any other

way, we would be undoubtedly faced with an incongruity, not only as to the amounts to be raised, but also in respect of time, between the quantity of means extracted from economy and the quantity required for the abolition of the existing unemployment, even if such other resources were adequate, which remains doubtful. I am of the opinion that I have succeeded in finding the said organic and elastic connection, which I see in a suitable *taxation of the causes of unemployment*, i. e. in a tax on rationalization.

I am well aware of the technical difficulties involved in assessing the exact taxable figure, for it would be necessary to take into consideration not only the saving effected by the use of machinery, but also the saving effected by efficient organization. The term "rationalization" would have to be accurately defined, and care would have to be taken that economic progress, implied in rationalization, should not suffer. All these details concern only the technical side of the matter, and it would be the task of practical men, versed in the technique of taxation, to solve them. Given good will, this task should not prove insolvable. Speaking generally, I would only point out that it should be possible to base this tax, if prices remained unchanged, on a certain relation of the gross output to the number of workers employed by the undertaking. But obviously it would be necessary to apply different principles of taxation to different kinds of undertakings.

The obvious objection to my proposal is the circumstance that this tax may act as a premium on inefficiency, i. e. that it may work against rationalization and against economic progress in general. But I reckon with the necessity of leaving a certain portion of the saving effected by rationalization to the producer, so that he shall not lose all interest in rationalization (see my remarks on human egoism on p. 14). The producer would, of course, prefer to keep the whole profit from rationalization, but he will be satisfied even if he obtains only a part of this profit. How large this portion should be, is a matter for practical experts to decide. We must not,

moreover, forget the effect of free competition which will compel producers not to remain behind their competitors in methods of rationalization. In the most unfavourable contingency it would therefore be a case of stemming, not of arresting, rationalization, which would be no misfortune in these times, for it would give production and consumption time to adapt themselves to new conditions. We would in any case always have the possibility of either relaxing or restricting rationalization by revising the scales of taxation on an international basis.

I am further aware of the fact that this tax on rationalization might not yield an amount adequate to provide occupation for all the labour expelled from production. The producer does not save the whole value of the wages of discharged workmen, for in the place of these workmen he must buy new machines, and their acquisition and upkeep require new expenditure in the form of lost interest on invested capital, depreciation, repairs etc. For this reason the saving effected is never as great as the amount required to provide for the discharged workmen. It is even possible that in some cases the producers do not save at all by introducing machines in the place of men, for they may do so only because they prefer to use machines, as they are more accurate, steadfast, reliable etc. This leads to the important conclusion that the tax on rationalization should not only suppress this kind of more or less futile rationalization, but also such rationalization which enables only a very small saving of the cost of production (*"small rationalization"*). From the point of view of mankind as a whole, this kind of rationalization does not represent any economic progress whatsoever; it enables individual producers to obtain a small saving or advantage, but on the other hand it means a serious injury to society as a whole. For in these cases the cost of production is reduced very little or not at all, whereas on the other hand society as a whole is burdened with the care of the unemployed, to which it must contribute part of its income in the form of taxes.

We may express it also in this way: Human labour is saved, but this saving confers no benefit on mankind, for this labour is allowed to remain idle instead of being used in other branches of production. On the contrary this saving is positively detrimental, for society as a whole must take care of the unemployed. Expressed in terms of money, mankind is not benefited by "small rationalization", as it does not lead to a decline of the prices of products; but mankind suffers a loss, for it must provide means for the payment of doles to the unemployed. The only profit from "small rationalization" is that derived by the producer himself.

At the present time society as a whole can hardly be expected to suffer positive damage of this kind for the sake of the private interests and profit of a few individuals. It is clear that in these cases higher economic interests are a mere pretext of private individuals for concealing their own egotistic interests. "Small rationalization" from the point of view of society is not useful, but detrimental.

The following principle should therefore be applied: As long as the proceeds from the tax on rationalization are not adequate to provide work for at least a certain percentage of the unemployed, rationalization should be altogether prevented by taxation as injurious to society. Protection against unfair competition could be assured by international agreements. Only really economical and lucrative rationalization should be permitted. Revenue from the taxation of such rationalization would be large enough to enable reserve work to be carried out by at least a part of the unemployed. Only this kind of rationalization could be admitted as beneficial from the standpoint of society.

Since the tax on rationalization would not suffice to cover the whole cost of the plan of reserve work, other *complementary means* for defraying the said cost would have to be found. These would consist of:

a) *Automatically increased revenue* from taxes, especially from indirect taxes, owing to the fact that workers who would otherwise be unemployed would consume normally and that they would not be excluded from consumption through dynamic inequality. Revenue from taxes affecting consumption (excise duties) and from other taxes would thus increase.

b) Increased revenue through a *small raising of existing taxes*. This raising would be justified by the fact that rationalization leads (or ought to lead) to a decline of prices and therefore to greater prosperity, as well as by the fact that the State would undertake to carry out work of public utility, to which the public ought to make a suitable contribution.

c) *Profits of the productive investments* of State Capitalism. The great extent of the activities involved in the above mentioned plan would permit the execution of work, the cost of which would in time be defrayed from the profit which it would yield, or from the larger yield of existing investments than hitherto. The Capital cost of these productive investments could be defrayed with the aid of loans.

It remains only to be added that it is quite natural that the benefit (net product) accruing to mankind either from rationalization or from the execution of the said plan, should be large enough to provide for the reimbursement of the cost involved in the achievement of this benefit. If this did not happen hitherto, the explanation is in the fact that a part of the aggregate national net product was often swallowed by individuals or by private-economic organisations. Where did these gains from rationalization during the past decade disappear to? A part of these profits went into the pockets of private undertakings which were carrying out rationalization and which used these savings for further rationalization. In this way unemployment increased, but prices did not fall substantially and therefore no benefit accrued to society as a whole. Rationalization thus resulted in the forcible idleness of millions of

workmen, and mankind was obliged to maintain millions of unemployed as parasites of society, although these millions could do productive and beneficial work. It is nonsense to assert that rationalization is carried out for the benefit of mankind, when it involves the teaching and forcing of people to live in idleness, the reduction of their standard of living, and the waste of this potential labour which could well be utilized for the common good. It is a good example of the way in which the machine, which could be a blessing and save us work and toil, can become a curse through human ineptitude and foolishness, and through faulty organization. This failure is not due to Capitalism as such, but merely to lack of foresight and wisdom.

The alternative is this: either I am able to save human labour in order to use this labour in some other way, and then I am justified in using rationalization; or, for the time being, I am unable to use this saved labour, and then I must not try to use rationalization. Capitalism must realize that the more it hastens the progress of rationalization under these conditions, the more it hastens its own end. For the greater the number of people excluded from private enterprise, the more extensive will become production according to our plan and the more will this State enterprise grow. The importance of State Capitalism will grow in proportion to the decline of private Capitalism (individualism). The very instinct of self-preservation would therefore induce private Capitalism to slow down the progress of rationalization.

The advocates of rationalization "at all costs", wishing to ignore this principle, are like the miser who died of starvation, though possessing loads of money under his pillow. He too wished to grab as much money as he could, not in order to spend it on food or other necessities, but in order to leave it to lie idle. Those who advocate utmost rationalization do the same, not with money, but with saved labour. It is true that rationalization is often necessitated by the unscrupulous competition of others. Freedom of competition

is one of the essential principles of Capitalism, and the blame for this phenomenon therefore rests on Capitalism. But even in this respect conditions could be improved by international agreement. Our criticism, of course, is not directed against efforts at rationalization as such, but against the extravagant treatment of human labour which we are allowing to lie idle unnecessarily.

The character of the above mentioned *tax on rationalization* would be that of a tax on yields (profits). Countries, unwilling to accede to the proposed international agreement concerning this tax on rationalization, could be penalized by means of anti-dumping measures. The proceeds from this tax would have to be devoted exclusively to work of public utility, i. e. not merely to emergency work, according to the plan relative to reserve labour possibilities. The payment of unemployment relief, at any rate demoralizing, could and would become unnecessary.

If we try to solve the problem of the present state of unemployment, we shall find that it is only partly due to the effect of rationalization; the chief cause of its extent lies in the unprofitableness of undertakings, due to the panic which has affected consumers. If we suppress this panic, we shall alleviate unemployment. Such unemployment as will then remain can be removed by means of the plan mentioned above, with the aid of special investment loans. The payment of interest and amortisation could be, at least partly, covered from the proceeds of the tax on rationalization.

The following would be the main *advantages of the tax on rationalization*:

The first and greatest advantage of the proposed tax is the circumstance that it provides an organic connection between progressive rationalization and the unemployment caused by it on one hand, and the provision of the means for the suppression of this unemployment on the other. The importance of this advantage will be seen from the fact that human labour, made superfluous by the

substitution of machinery through rationalization, will in this way automatically be utilized for work of general utility. If working hours were reduced, rationalization would only imply an alleviation of the burden of work, such as mankind cannot as yet afford, whereas if reserve work according to a definite plan were carried out, new useful products would be created and the labour saved would be utilized for productive purposes. The said organic connection would contribute towards the elasticity of this tax.

The reform of the Capitalist order of society would thus be carried out without difficulties, peacefully and without revolutionary upheavals. I need hardly emphasize the untoward consequences which the economic chaos, caused by a revolutionary change of the Capitalist order, would have on our civilization. *Ducunt volentem fata, nolentem trahunt.*

I think then that all producers or business undertakers would be willing to make the greatest sacrifice in view of this probability. But the proposed plan does not even demand any positive sacrifice from them, and the sacrifice involved would at any rate be smaller than that involved in the reduction of working hours. They would only be asked to forego a part of their prospective profit, and this demand appears quite justified, as it is only right that not only the individual, but society as a whole should benefit from the utility of newly invented labour saving machines and appliances. Naturally it would be possible, when making assessment, to take into consideration any individual merits of the producer (for instance the fact that he himself invented the machine or a specially advantageous method of management and organization).

Reduction of the working hours would necessarily react in a disturbing way on the stability of prices, as long as the increased cost of wages was not equally divided. On the other hand the execution of work according to plan would not disturb in any way the price level or affect consumption. Only the producers (business undertakers) themselves would be affected, for they would have to

be satisfied with a lower rate of profits, i. e. with receiving only a part of the full profit from rationalization.

Every attempt at raising new taxes would probably meet with steadfast opposition from the enfeebled undertakings. But they could easily dispense with a part of their prospective profit in a measure to be laid down on an international basis. In the same way as production got into difficulties, not through static inequality, which only reduces the prospects of profit, but through dynamic inequality, entailing positive losses and sacrifices, the weakened undertakings might be burdened with the sacrifice of foregoing part of their prospective profit, but they could hardly be expected to bear any new substantial positive burden of taxation.

§ 3. International statistics of consumption.

In some quarters it has been proposed that we ought to organize the whole of production and consumption on a definite plan, as it is done in Soviet Russia. I think a step forward in this desirable direction of systematic, planned economy would be the improvement of international statistics of consumption. Certain branches of production have their own, sometimes very accurate, statistics, others have at least approximate estimates. But on the whole we are still far from having reliable statistics which would enable us to organize and regulate world production according to a definite plan. That such statistics of consumption are not only possible, but very useful too, may be seen from the example of the International Sugar Convention, showing that the organization of economic activities in a systematic way can be successful. The same applies to various other international trusts and agreements. World trusts and cartels are not only working systematically according to plan, but also very economically. Their greatest drawback hitherto has been their tendency to cause and contribute towards the dangerously rapid growth of dynamic inequality through rationalization. Should this drawback be abolished, the importance and advantages of these trusts would increase in proportion. An improved inter-

national statistical service regarding consumption would stimulate the organization of such trusts, and it would at the same time prepare the ground for a better economic organization of the world according to plan.

§ 4. Regulation of instalment business. In view of the unfavourable influence of sales against payment by instalments on the development of the crisis, this question should be also carefully studied by the proposed International Conference.

I do not think that this method of doing business should or could be entirely prohibited. To prohibit sales on instalments is equally as difficult as to prohibit money lending. Nevertheless from the economic point of view these sales obviously represent a danger, and it is therefore necessary to do all in our power to prevent any damage which they might cause. The root of the evil is not in the damage which the purchaser might suffer, in case he cancels the deal and loses all the already paid instalments, but in the fact that through this procedure goods may unexpectedly accumulate in the hands of the seller, leading to congestion and even to a crisis of marketing.

Remedy may be sought in various ways. Thus for example an *insurance contract* may protect the buyer, threatened with the loss of instalments paid, on condition that the buyer is not allowed to cancel the purchase contracted on instalments at his will, but only in case of his established insolvency. From the economic point of view it would not make much difference whether the Insurance Company would refund to the purchaser the instalments rendered by him, take his place as purchaser according to the contract with the selling firm and take over the purchased article, or whether the Company would pay a lump sum for the still outstanding instalments and thereby help the purchaser eventually to acquire the absolute possession of the article in question. Both these alternatives could be combined, and the decision as to which alternative should be applied would depend on the question whether the amount paid

up or the amount still outstanding was greater. All the selling firms would have a very real interest in such an arrangement, which would enable them to get definitely rid of goods, and all such firms could therefore come to a common understanding that no instalment business shall be transacted without a similar insurance policy.

Insurance premiums could probably be fixed at a very low rate, since in normal times the number of persons unable to fulfill the contract and failing to pay all the instalments would be very small. The sale price of the article would be increased very little through these premiums. But probably it would not have to be increased at all, for the premiums might be paid by the seller himself, in view of the vital interest he has in selling his goods definitely.

Another remedy could be provided by an *intermediary institution*, forming a connecting link between the seller and the purchaser, but operating only in case of necessity, i. e. only in case the purchaser, who paid a certain amount of instalments, wanted to cancel the contract. The profit of this intermediary institution would consist in the fact that it would obtain goods more than half paid, i. e. at a very reduced price, permitting an easy sale of these goods, whereas the seller would, as in the case of the insurance scheme mentioned above, have the certainty that the goods which he considered as sold would not come back to him and would not depreciate his other goods in stock. These goods would not come back to him, even if the purchaser became bankrupt.

All the above remarks of course apply to cases where the original seller is the producer himself, and not an agent, merchant or other intermediary. It is further assumed that in all these cases the right of property of the sold article is reserved to the seller until the full payment of all instalments, and that the purchaser is bound by contract to lose all the instalments paid up if he becomes unable to pay the outstanding instalments (owing to insolvency etc.), or if he fails to pay the agreed instalments at the specified date.

§ 5. The question of international indebtedness. We have made our point of view sufficiently clear when we discussed the palliative remedies in the previous chapter (see p. 108). But we must mention this problem again in connection with the question of a definite remedy, for a moratorium could hardly be expected to provide such a remedy. All the difficulties and implications of this problem have not yet become fully apparent. The explanation of the fact that international indebtedness has not yet caused more serious disturbances than it has done, lies in the circumstance that the debtor States have not, for the most part, paid their debts in cash. Old debts were paid out of fresh credits contracted since the war, so that the chief creditor, viz. the United States, in effect received almost nothing, having practically granted the debtors a respite for the payment of these debts. It happens for instance in this way: Germany must pay reparations to France, and France must pay war debts to America. America therefore lends money to Germany, who pays it to France, and France in her turn passes it on back to America as part payment of her debt to the United States; in other words, America receives as an instalment of her claim against France what she herself lent to Germany. The number of engagements has increased, for a fresh loan has been contracted, but effectively nothing has been paid off the aggregate debt of Europe.

Thus we see that the problem of international indebtedness still awaits solution. Should the payment of international debts actually begin to be effected on a large scale, we would have to be prepared for fresh disturbances. The already weakened organism of world economy would hardly be able to withstand such a shock, and the ultimate cancellation, or at any rate substantial reduction, of many of these debts appears therefore not only expedient, but inevitable.

§ 6. Tariff barriers. This question has become especially urgent and requires careful attention. We have shown that tariff barriers, and protectionism in general, are opposed to the principle

of economical production. This principle demands the largest and most concentrated production possible, in other words the largest possible productive undertakings with the largest marketing possibilities. If foreign markets shut themselves off to imports by means of high tariff walls, and the home market is too small to consume the entire output of large industrial undertakings, it becomes impossible to utilize the latter to their full capacity for lack of marketing possibilities. The efforts of every small country with large industries to achieve industrial self-sufficiency and to exclude foreign goods from the home market, may be compared to the proceeding of a family wishing to build a mammoth electric plant (such as the Dnieprostroi in Russia) in order to be self-sufficient in electricity, i. e. in order to provide electric current for a few bulbs in the home. Such a method of economic activities is obviously foolish. At the back of this economic nationalism is the fear of war. The desire of every nation to produce all its requirements and to be economically self-sufficient, is actuated by the anxiety to be independent of imports in case of war. As long as countries are exposed to the danger of becoming the prey of the lust of conquest of their neighbours, world economy will have to suffer.

It follows that *Panewrope* constitutes the best solution and the only salvation for our Continent both from the political and from the economic point of view. Opinion may only differ on the point whether an economic or a political union of Europe should come first. In my opinion the economic union could and should precede the political, for it would meet with smaller obstacles and would not lead to such grave doubts and embarrassments on the part of the participating nations. Eventually it would in any case lead to a political union, and this aim would thus be achieved with smaller opposition and greater likelihood; it is therefore only a question of a sort of "pia fraus" (pious fraud). At any rate the question of economic union is much more urgent than that of political union. But whichever solution may precede the other, it is certain that

only through Paneurope can we bridge the ever growing gulf between the economic atomization of European nations and the postulate of economical production. In other words, only Paneurope can overcome the discrepancy existing between the actual minimization of markets and the economic tendency towards the creation of a maximum market, i. e. towards a maximization of markets.

The abolition of tariff barriers could not, of course, be carried out at once and completely. Customs duties could be reduced only gradually and with special regard to certain branches of production. But the preparatory work ought to begin as soon as possible. International statistics, international trusts and industrial agreements, as outlined above, provide a suitable basis and point to the way by which this solution could be accelerated.

The question of the distant *markets of the Far East* is a question of time. It is unlikely that the conditions in China and India will improve and settle down in the near future. On the other hand it may be confidently expected that the economic relations of *Russia* with the rest of the world will soon become more lively.

§ 7. The problem of gold. Gold as money is only a medium of organization. Its natural properties are of almost no importance for direct human needs, i. e. for other purposes than those of organization, for most of the gold remains deposited in the vaults of the banks of issue and does not pass into circulation. Nevertheless the special qualities of gold and the possibility of their utilization have induced us to choose gold as a monetary medium.

This function of gold as a means of money organization should never be forgotten, for it is this function, and not its value as a measure of wealth, which lends gold its great significance in the commonwealth of nations. For this reason gold itself should not, as far as possible, be used as a real means of payment, whether in general circulation or for the settlement of international obligations, but only as a commodity, serving as a quantity measure of the

currency proper, i. e. as a reckoning medium. Gold should function as a means of payment only for the absolutely indispensable settlement of outstanding balances in international relations.

In view of the paramount importance of gold as a medium of organization in the commonwealth of nations, every nation should possess ample reserves of gold for this purpose, especially for international payments. This does not yet happen, for under the existing legal order of society it is quite feasible for the aggregate reserve of gold to appertain to a single nation, or even to a single individual. The present organization of society does not therefore possess an institution which would facilitate the function of gold as a medium of organization and render it appropriately accessible to all nations and to mankind as a whole.

As long as this contingency does not exist, international settlement of obligations should as far as possible be simplified at least technically by a further restriction of payments in cash and bullion. This could be accomplished through an *International Banking Institution*, which would be the sole keeper and trustee of the aggregate reserve of gold, and which would at the same time function as a *World Clearing House* for the settlement of all outstanding balances of international payments. Every bank of issue would have its gold reserve deposited in this institution. Instead of actually exporting gold, the debtor nation would request this institution to debit its account with the amount due, and the same amount would be placed to the credit of the nation supposed to receive it in gold.

This international institution could further function as a *world organisation of discount* (for discounting foreign bills of exchange and other claims). The urgency of this function is illustrated by the difficult situation in which England found herself owing to her inability to make her claims against Germany liquid. The present serious international difficulties, arising from the fact that claims between nations cannot be made liquid ("frozen credits") have an analogy in the difficulties which existed in the United States of

America between various banking institutions in times of crises, before the Federal Reserve Act of the 23rd. December 1913 was passed and before the new system of banknotes was introduced. The institution, proposed above, could not hold the same position in regard to the national banks of issue as that held by the Federal Reserve Board in regard to Federal Reserve Banks. Nevertheless its organization could be modelled on this American example and could be parallel with it.