

## CONCLUSION.

§ 1. **The deflation theory and the theory of underconsumption.** The general opinion prevails that this crisis is due to deflation. I do not agree with this view, and in the preceding pages I have tried to prove the fallacy of this theory. The decline of prices, due to deflation, is only the reverse aspect of the appreciation of money, and not its consequence. It cannot be maintained that in the case of deflation we are confronted with two different phenomena, of which one (the decline of prices) has been caused by the other (appreciation of money), for there can only be a *single phenomenon*, viz. the changed value of money which cannot be ascertained except through the decline of prices. If we sit in a train which is standing still and another train next to us starts to go, a change is taking place. But the change is not the same, if both trains begin to move. In the former case there was only one independent change, in the latter case there are two changes. When the other train moves and ours remains stationary, we observe that our position to the former has changed. But this is only a logical conclusion from the change affecting the other train, not a consequence or effect of that change. If we say that one man is taller than another, it is only a reverse form of stating that the latter is smaller than the former. The second statement has not been caused by the first, it is only a logical conclusion from it. The same applies to the reverse movement of prices during deflation. The deflation theory therefore does not explain the *cause* of the decline of prices, since the decline of prices and the appreciation of gold are only

two different aspects of one and the same phenomenon, and the former is not the effect of the latter.

On the other hand in a crisis due to abnormally low, inadequate consumption, there is an actual cause for the decline of prices. This decline is the consequence of decreased consumption, and not merely its reversed aspect. Consumption has decreased, because some consumers cannot consume for lack of income, whereas others, possessing adequate incomes, do not want to consume out of anxiety or for reasons of speculation. Decreased consumption in its turn has been caused by other factors, so that in a crisis of underconsumption we are dealing with at least two phenomena, and with a whole causal complex.

It is true that during deflation consumption declines too. But this decline is due purely to a lack of will-power to buy, and not to any inability to consume, since prices of commodities fall first and incomes decrease only later on. During deflation we see first of all an appreciation of gold and a decline of prices, then an increased demand for goods, and last of all a decrease of incomes and of consumption. Consumers, on the whole, do not fare badly during deflation, and only production suffers owing to appreciation of debts, depreciation of goods in stock, increased exporting difficulties etc. In a crisis of consumption the process starts on the contrary with the exclusion of large numbers of consumers (owing to unemployment, crashes on the Exchange etc.). This decline of consumption is in fact the cause of the crisis. The progress of this crisis is therefore quite different from, in fact almost the reverse of, the progress of a deflation crisis: a number of consumers is at first deprived of income and excluded from consumption; then follows a decline of prices and last of all production declines. The difference between the two kinds of crises is therefore obvious, and I have demonstrated it at length in the third chapter of the first section of this work.

The correctness of my statement that the present world crisis is not due to deflation is not weakened by the fact that certain countries have adopted measures which have a deflation character. These measures were necessitated by the small proceeds of their revenue in consequence of the crisis (they include for instance the reduction of salaries of civil servants), as well as by considerations for the stability of the currency (for example the raising of the rate of discount, exchange control regulations, the raising of tariff barriers and import quota systems etc.). These measures would naturally lead to a speedy recovery of economic life, if the crisis were really due to deflation, for they are aiming at the adaption of the whole economic system to the new value of money. During the present crisis, however, similar measures are worse than useless, for they only aggravate the crisis. They aggravate the situation of trade and industries, because credit becomes dearer, and they aggravate the situation of consumption, because its capacity declines with the decrease of wages and salaries (in civil, as well as in private service).

The realization of the fact that the present crisis is due to inadequate consumption and not to deflation, leads to a very important conclusion, viz. to the determination of the *correct remedy*. For if the crisis were due to the appreciation of gold, and if all the other characteristic symptoms (declining production and consumption) were only the consequence of the crisis, it would be possible to stop the crisis merely by arresting the appreciation of gold or by slightly reducing its value (which has been done during the Czechoslovak deflation crisis in 1922/23). In a crisis of consumption these remedies must fail, for they are calculated to cure only certain symptoms, not the cause of the crisis. Their application is detrimental, because every depreciation of money must lead to a rise in prices and therefore to a further decrease of consumption. The crisis of consumption can be cured only in such a way as would lead to the raising of the capacity of consumption. If a part of

consumption has been destroyed, production cannot be helped except by a restoration of this lost consumption power.

§ 2. **Inner contradictions of Capitalism.** There is little doubt that the large extent of the present crisis is above all due to psychological reasons, viz. to lack of confidence, panic and anxiety. Nevertheless by suppressing these symptoms we shall not suppress the main cause of the crisis, even should a revival of trade take place, implying that presumably the crisis is over for good. The long duration of the crisis has caused a certain exhaustion of commodities owned by the ultimate consumer, and consumption, as far as it has not been utterly ruined, is so starved out that we may confidently expect a revival of trade and apparent temporary prosperity, once the symptoms of anxiety and lack of confidence subside. This apparent prosperity, achieved without the application of radical remedies, such as recommended by me, may then serve as an argument against me and in favour of the advocates of the deflation theory. But this argument would be as unreal as the prosperity on which it relied. For in my opinion the root of all the evil consists in the faulty methods of distribution in conjunction with the rapid technical progress of production, and I have little doubt that my contention will be justified by future events.

Technical progress demands concentration of production and maximum output (tendency to *maximization of production*), as well as mechanization of production by means of machinery (tendency to achieve maximum reduction of human labour, implying *minimization of consumption*). The capitalist mode of distribution leads on one hand to the creation of non-consumers, on the other to the creation of oversaturated consumers (i. e. of persons who are unable to consume their whole income, so that part of it becomes barren for purposes of ultimate consumption). The result is apparent, i. e. relative, *overproduction* on one hand, and abnormally low consumption, i. e. *underconsumption*, on the other. Thus we have on one hand the tendency towards maximization of production, and

on the other the tendency towards mechanization, implying the minimization of consumption, in view of the existing legally admissible method of unequal distribution of income. This obvious inner contradiction of economic development is the result of the *capitalist (individualist) basis of society*, for the tendency towards maximization of production and towards its mechanization could run parallel, if it was not for the Capitalist method of distribution.

Mechanization acts as a centrifugal machine, excluding human labour all the time, which, under the present conditions of distribution, thus loses its consumption power. Unless a suitable reform is found, this inner contradiction will bring Capitalism ad absurdum, for Capitalism will succeed in producing the largest quantity of commodities in the best possible way, but there will be nobody to receive a share of the produced mass of commodities as a reward for accomplished work. Machines, i. e. the owner of these machines, will participate in an ever growing degree in production. These discrepancies must be removed, and the sooner they are removed the better, for otherwise, even if we mitigate and temporarily suppress the present crisis, we shall soon be faced with another crisis, probably even more terrible in its effects than the present one.

It is thus necessary to seek a *remedy* for the purpose of removing this discrepancy, so as to bring Capitalist production as much as possible into harmony with the postulate of equal distribution. In this connection I have drawn the attention of the reader to the difference between static and dynamic inequality. It is the difference between the normal capacity of consumption, and the new situation of substantially lowered consumption, created by the dynamic process which reduces consumption power steadily and which we have figuratively called the *centrifugal force of Capitalism*.

The greatest possible effort must therefore be exerted by means of suitable reforms to overcome, if not every inequality, at least this dynamic inequality. It goes without saying that a partial removal of static inequality, i. e. an equalization or general levelling of

incomes, would greatly contribute towards the widening and raising of consumption. But should this prove impracticable, no crisis will result therefrom, if dynamic inequality is removed, for production will be able to reckon with the static inequality and with a more or less stable consumption. Production would profit from an extension of consumption, but it will suffer no positive loss if consumption will continue to exist at its normal intensity. On the other hand dynamic inequality constitutes a combustible, from which economic conflagration, i. e. the crisis, originates. It is difficult to cure, but, as I have tried to prove, it is not incurable.

Static inequality unfortunately seems inevitable, and up to a certain degree it will probably always persist, even should material distinctions disappear. Einstein and a negro from darkest Africa will never be equals, despite the equality of material wealth between them. For, as Schopenhauer says, however democratic human institutions may become, nature will always remain aristocratic, since it does not accord the same head and wit to everyone.

**§ 3. Deductions from the difference between static and dynamic inequality.** The said difference between static and dynamic inequality is especially important, as it does not disprove the possibility of a continued existence of Capitalism, even if it does not prove it. For we have made it clear that a crisis does not follow from any kind of inequality, especially not from static inequality, but only from dynamic inequality. The suppression of this inequality does not necessitate the total abolition of the Capitalist system. Such abolition would be necessary only if it were proved that the crisis is due to static inequality, and that therefore it could not be suppressed except by the suppression of this static inequality.

Although we have discovered logical contradictions in the tendency of Capitalist development, we did not arrive at the conclusion that its impotence has been proved and that its continued existence is out of the question. The obstacles which stand in the way of its

continued existence, are not insurmountable. It is only necessary to prevent the continuous and ever growing exclusion of consumers, deprived by this development of their right and capacity to consume. Nevertheless Capitalism ought to and will have to consider the question of alleviating even static inequality. Its total abolition appears hardly practicable and has not been accomplished even in Russia. It is even undesirable, for it would not promote the efficiency of production. There always have been and always will be people in this world, who in their manual or mental work will show superior initiative, energy, skill and zeal, in short better capabilities, than other people. If an incentive to greater efficiency by means of special rewards is introduced, inequality is established. If we do not provide such an incentive, then we renounce and suppress qualified skill and efficiency, and commit an irreparable injury on mankind and on the progress of civilization.

This deduction from the difference between static and dynamic inequality is very important, for in recent times it has become fashionable to speak about Capitalism as of a form of organization which is absolutely out-of-date, detrimental from the social point of view and incapable from the standpoint of economic development and welfare, in short as of a system morally and practically doomed to perdition.

I say frankly that my solution relies on logical, and not on ethical grounds. If Capitalism decides to suppress dynamic inequality — and I have pointed out one way in which this aim might be achieved — it will suppress the logical contradiction which that inequality represents, and it will logically be able to continue to exist, even at the side of and simultaneously with extended State Capitalism. I do not go into the question as to whether or how far Capitalism is opposed to certain rules of ethics. I do not defend the weak points of Capitalism, of which there are many, and I cannot therefore be considered prejudiced in its favour. But I do not overlook its good points, and I consider that a certain circumspection of judgment

and precaution in the choice of suitable reforms are imperative, for it is easy to demolish a structure, but difficult to erect a better one in its place.

A few words must be added in this connection regarding the *evolutionary possibilities of Russian State Capitalism*. Pure Communism as an economic system has failed in Russia. State Capitalism, which took its place, has many advantages and many disadvantages. For the time being it is difficult to decide whether the disadvantages of State Capitalism are of a permanent nature or not.

The present comparative equality of distribution in Russia is an equality in privation and poverty, not in wealth and affluence. These conditions will perhaps one day improve, for we must not forget that Russia has only just started with industrialization. On the other hand we cannot overlook the permanent drawback of the system which regards man, not as an aim in itself, but as an instrument towards the achievement of another aim, be it the ideal of the State or some abstract idea.

What the people of Russia lack more than the people of other countries, is freedom: freedom of conviction and of utterance of all kind (press, speech etc.). As long as this freedom does not exist there, it is impossible to consider a reform of the Capitalist system on the example of Russia as progress; for everyone prefers life in freedom, even if it entails poverty, to life in luxury, implying the loss of liberty. The greatest attraction of wealth is the freedom which it commands. The assurance of the possibility of satisfying certain wants is often a stronger motive than the actual satisfaction itself.

As to the evolutionary possibilities of Russian State Capitalism, I will only say a few words on the Russian Five-Year plan. This plan is a watchword, and it is of little interest to the world whether it is actually carried out in all its details within the specified period of five or six years or not. It is only important as a tendency, method and program of Soviet Russia. This program is the in-



dustrialization of Russia, carried out at the cost of very heavy sacrifices on the part of the whole population. It is a race between the achievement of the Five-Year plan and the achievement of the culminating point of endurance of the people. In other words, the question is whether the people will suffer and hold out until the plan is carried out, or whether they will lose their patience and revolt before it is completed. In any other country but Russia this would be a serious matter, but the proverbial patience and endurance of the Russian people, apart from the religious fanaticism and idealistic enthusiasm of the adherents of the régime, and the strict régime prevailing in Russia hardly permit the surmise that a revolt will take place.

The question remains what will be the consequences of the Five-Year plan. What will happen, not in five, but in ten or fifteen years, if Russia aspires to become the second greatest producer in the world within the next five years? Everybody knows the preponderant position of post-war America who has no other aim but economic progress. But in Russia economic progress is not an aim to itself, but only an instrument towards the achievement of a higher aim. It is one of the political instruments for the conversion of the world to Socialism. Let us now consider that the Soviets have natural allies in other countries in the millions of working classes, dissatisfied with the Capitalist system. These millions are multiplied by technical progress (rationalization), leading to growing unemployment, by the dissatisfaction due to the narrow-minded egoism of certain classes, and by the shortsighted economic policy of our politicians. At times it seems as if even the proverbial common sense of the Anglo-Saxons had left the world. The whole Capitalist world is helping Russia and providing it with a knout which Russia may use for flogging it.

Russia is thus building its power on the egoism of the Capitalist world, which is as safe a basis as the essence of egoism itself. Mankind often loses its common sense, but its egoism never. In

Russia everything is done systematically, according to plan, while the Capitalist world amuses itself with fruitless official pronouncements and international conferences. The unsettled conditions in Europe, China and India only aid the schemes of Russia.

The above diagnostics enable us to make a prognostic. The only effective defence of the Capitalist organization of production consists in the creation of large economic units and in a radical resistance to and suppression of *unemployment*, which is not a temporary, but a permanent phenomenon. It aggravates the present crisis, but it would exist, though in a milder form, even if the crisis had not broken out. The suppression of unemployment requires a well defined plan of various kinds of emergency work and of investments of public utility in precedence of importance. This plan could be carried out according to the extent of existing unemployment, supplying the labour reserves required for these schemes.

§ 4. **Conclusion.** The above results of our analysis may be summed up as follows:

The present crisis is a crisis of consumption and distribution. In consequence of certain factors, immanent in Capitalism, and of certain other incidental circumstances, Capitalism has deprived production of a number of consumers, without whom production must vegetate and slowly decay.

Our *diagnosis* proved the following facts:

1) The fundamental evil lies in *rationalization* in conjunction with the Capitalist method of distribution, which is in direct contradiction to the tendencies of modern production. This contradiction is immanent in Capitalism, and therefore permanent. It is still going on, for the extent of production and its mechanization are still progressing. Unless conditions change, this contradiction is also the essential factor and the main cause of the present and of all future crises. I call this factor the chief evil, since it is inherent in Capitalism, but its significance is more qualitative than quantitative.

2) This evil is aggravated by other ways of *dynamic inequality*, leading to the impoverishment of consumers, such as crashes on the Bourses and Exchanges, deflation or inflation of currencies, so far as these phenomena lead to the financial ruin of individuals etc. Unlike the dynamic inequality comprised in the first paragraph, this dynamic inequality is incidental and not essential. It does not therefore progress continuously.

3) The crisis was caused also by other *incidental circumstances*, such as the unrest in India and China, all of which undermined the consumption power of the world. These factors are of smaller importance, not because they reduced consumption less than the causes of the above two categories, but because they are not immanent in modern economic development. They contributed to the crisis only as they happened to coincide with the outbreak of the crisis.

4) *Psychological reasons* are chiefly responsible for the huge dimensions of the crisis, i. e. quantitatively. These include general lack of confidence, imitation of the behaviour of others, fear, panic and anxiety, in other words that general psychosis which accompanies all crises, and which broke out in an especially violent form during the present crisis.

The proposed *remedies* include the following suggestions:

1) The most urgent task of all is the *suppression of the panic*, though it is only a palliative remedy. This task may be carried out successfully only through the exercise of governmental power (through legislative and administrative measures) on an international basis and by the mutual co-operation of the participating nations ("Committee for the suppression of panic"). The hotbeds of this panic should above all be destroyed (Bourses and Exchanges should be closed).

2) The success of this campaign further depends on the *co-operation of the people* with the Governments and on the self-control of all citizens. Everyone should abstain from any action which might strengthen the panic or reduce consumption. The most

detrimental, because the most general, behaviour is that of excessive saving by individuals (not by public authorities which must exercise economy, for a budgetary deficit only leads to currency panic). Every exceptional self-denial of an act of consumption, which would be normally carried out and would be justified in view of the individual's income, is a sin against the welfare of society. Every means of public propaganda (broadcasting, lectures, the press etc.) should be used for spreading the watchword "Consume (spend) as usual". Everyone is at liberty to live as he likes, but if utmost economy in these times is practised even by wealthy individuals, this proceeding must be denounced as injurious to production. In view of the Capitalist method of distribution it also helps to destroy those consumers who have been indirectly excluded by Capitalism from processes of production, and thus in the long run it helps to undermine the very foundations of Capitalism.

3) The most important aim of all remedies is the *suppression of unemployment*. The palliative measures to this end, founded on the principle "no doles without obligation and performance of work", include emergency work and the collective provision of the wants of the unemployed (payment of doles in kind). The definite cure of unemployment is embodied in our proposal of a concrete plan for providing reserve opportunities of work of public utility. This plan means a slow, evolutionary transition to State Capitalism, without violence and without economic percussions. The cost of this scheme, forming the nucleus of systematic, planned public economy, would be defrayed from the proceeds of a tax on rationalization. In this way rationalization, as the cause of unemployment, would organically help to abolish it. If hitherto it caused unemployment and destitution, in future it would help to build up prosperity.

Any other measures and remedies should be carefully considered and discussed by an *International Economic Conference*, which should be convoked without further delay.

As to the question of *diagnosis*, I would only add that a theore-

tical analysis is no less important than the question of practical remedies, for only such an analysis can provide an explanation of the causes of the origin and of the extent, as well as a prognostic of the further development of the crisis. If we make a correct diagnosis, we are able to assert for instance that the abolition of the gold standard or the prevention of a local accumulation of gold, though desirable, are nevertheless insufficient to overcome the crisis. We can also assert that the crisis cannot at all be cured by a mere passive attitude of waiting for future developments.

As to the question of *remedies*, we must distinguish between palliative, provisional remedies, and remedies, aiming at a definite cure. The establishment of a "Committee for the suppression of panic" is the most important palliative remedy. The suppression of unemployment is the chief aim of a definite cure. The latter is by far more difficult to achieve, and I have tried to point one way in which this difficulty may be overcome. It is my sincere wish that the proposed measures should represent at least the first step towards the solution of these problems.

Should someone doubt the expedience of the proposed remedies, let him propose better ones, but above all do not let us delay the cure any longer. We must not concentrate too much on various pin-pricks, which will not destroy either Capitalism or the welfare of mankind (such as gold accumulation, unequal distribution of gold, tariff barriers etc.), but we must attend above all to the serious wounds, self-inflicted by Capitalism.

The situation is as follows: As *producer* the Capitalist tries to reduce the cost of production by substituting expensive human labour by cheaper machinery. By rationalizing he excludes people from the ranks of consumers. As *consumer* this same producer does not use the accumulated consumption power, achieved by the saving effected through the use of machinery, for filling the gap in the ranks of consumers which he caused, i. e. by consuming more in the place of those lost consumers. On the contrary he

continues to save and consumes the same as before. (Let us imagine a Rockefeller who would concentrate in his hands the preponderant consumption power of the world: if he slept badly and would not consume, all production would have to stop, for there would be no one else who could consume.) The savings thus effected are used for further capitalization, i. e. not only for raising production, which would be useful, especially provided differentiation took place, but for a further substitution of machines in the place of human labour, whereby a further number of workmen is excluded from consumption. And so the process continues all the time.

And yet the Capitalist is convinced of his own virtues: he is praised for practising rationalization, whereby he presumably contributes to economic progress; he is praised for not consuming more than he does, for this apparently proves that he is unselfish, thrifty and economical; and he is praised for lending or using his savings for purposes of further capitalization, which again is considered to be propitious to economic progress.

All these misunderstandings are due to the fact that it is forgotten that aggregate production depends not only on aggregate income, but also on its distribution, and that everyone is concerned only with the raising of production at all costs, without troubling whether adequate consumption power is available. It is also forgotten that to deprive production, equipped to supply a certain market, of its potential consumers through dynamic inequality, is tantamount to its destruction.

We are approaching the abyss with our eyes shut: let us open them wide before it is too late!