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FRESH WORK

FRESH MARKETS

A PLAN FOR IMMEDIATE ACTION AGAINST
UNEMPLOYMENT AND THE ECONOMIC CRISIS.

By Edgard MILHAUD.

FOREWORD

For nearly four years now, the continuous and implacable unrolling of the tragic film of the world depression offers the disquieting spectacle of hundreds of thousands, of millions, of workers thrown out of work day by day and year after year, and subjected, with their families, despite public charity and, in some countries, despite unemployment allowances, to privations and destitution. Hence declining market demands, leading in turn to the closing of more workshops and factories, to further wholesale dismissals of workers, and, as a result, to a further contraction of purchasing power, and thus to a further accentuation of the depression.

From being an effect, unemployment has accordingly become a cause. It feeds and intensifies the depression, as the depression feeds and intensifies it. Eight to nine million wholly unemployed at the close of 1929; fifteen million at the close of 1930; twenty to twenty-five million at the close of 1931; and more than thirty million at the close of 1932.

Where shall we drift to if this is allowed to go on?

Has not this spectacle, indeed, something to teach us ? If unemployment feeds and intensifies the depression, does this not suggest that a reduction in unemployment would result in calling a halt to the extension of the depression and even perhaps in compassing its retreat, in reversing the economic curve, and in bringing recovery nearer ?

In fact, might it not be possible, by making a concentrated attack on unemployment, to re-ascend the fatal spiral towards its summit ?

That is how the author reasoned during the summer of 1931, when the rapid financial and monetary repercussions of the deep depression led to a precipitous aggravation of the situation and when the news spread that in Brazil, owing to a panic, millions of sacks of coffee were thrown into the sea in order to maintain prices, that in the United States maize and wheat were consigned to the flames in great quantities, that everywhere the producers of primary commodities took concerted action to adjust output to the possibilities of absorption in markets which were becoming daily less promising and more demoralised.

Did all this really indicate the way to recovery ?

In November 1931, the author read a paper before the Geneva National Institute, entitled « A Plan for Immediate Action against Unemployment and the Economic Crisis : Simultaneous and Joint Provision of Employment and Markets ». A method was suggested for gradually absorbing a certain proportion of the workless. The author argued that the supplementary purchasing power directly or indirectly resulting from their re-employment, might be utilised for assuring the sale of the supplementary output.

The following April, the plan, published in pamphlet form, was distributed to the delegates attending the International Labour Conference. It was printed at the same moment in the French, English, and German editions of the Annals of Collective Economy.

Several months passed. Notices and articles appeared in the press. A movement favourable to the plan gathered strength. Discussions took place. The Belgian Association for Social Progress, at the instance of its President, M. Ernest Mahaim, then Chairman of the Governing Body of the International Labour Office, decided to examine the proposal. In New Zealand, a campaign in favour of realising the idea was started by one of the most influential members of parliament, Mr. Polson, President of the Central Association of Farmers.

The very principle of the suggestion, the simultaneous creation of employment and markets, was affirmed, quite independently and in different contexts, by eminent economists like Professor Lederer, of the University of Berlin, in February 1932, and, about the same time, Professor Frank Graham, of Princeton University, at present interim professor at the University Institute of Higher International Studies at Geneva.

Parallel to this intellectual movement, a widespread practical movement developed in the United States, which succeeded in finding employment for some million workless. In view of the limits or the obstacles encountered by individual and local efforts, a need for coordination made itself felt and, in October 1932, the Emergency Exchange Association was founded. This has for its object to organise a veritable national system of barter, aided by a substitute currency to be used coincidently with the ordinary currency. At the commencement of 1933, in a manifesto, leading American economists, including among others, Professors Douglas, Irving Fisher, Frank Graham, Jacob Viner, Willitz, Wolman, and Mr. Otto T. Mallery (Member of the Presidential Committee for Combating Unemployment), proclaimed the social importance of the efforts tending to facilitate and organise the exchange of goods and of services among the unemployed and petitioned the President of the United States to appoint a Special Committee consisting of social reformers, of

leaders in industry, trade, and labour, of civil servants, and of economists, to study the possibility of bringing into existence such organisations and of facilitating the exchange of information respecting the best methods of founding and conducting them, with the eventual support of the Reconstruction Finance Corporation and that of industry generally.

In Germany, too, similar efforts, but on a more modest scale, were inaugurated.

The idea of the simultaneous creation of employment and markets has thus passed beyond the sphere of academic discussions and personal speculations. It has struck the bedrock of reality and has done this with a promptitude which must appear remarkable seeing the opposition commonly aroused by everything novel.

The idea is therefore gaining recognition and the results thus far achieved — to which the following pages are largely devoted — offer the author an encouragement difficult to exaggerate. But they represent only an encouragement. An immense new intellectual and realistic movement requires to be launched now, if this method, the principle of which is no longer in dispute, is to assume the forms and the importance permitting it, in this depression of an unprecedented acuteness and magnitude, to yield the far-reaching practical results which we have a right to anticipate from it.

To the sceptics, we say therefore : study the facts; to the timid : the greatest peril to-day is to wait with arms folded; and to men of action : the hour to move has struck.

Geneva, 14 June 1933.

Edgard MILHAUD.

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I.

A PLAN FOR IMMEDIATE ACTION AGAINST UNEMPLOYMENT AND THE ECONOMIC CRISIS.⁽¹⁾

SIMULTANEOUS AND JOINT PROVISION
OF EMPLOYMENT AND MARKETS.

I. — The Present Stage of the Crisis. — Its Characteristics. Its Aggravation. — Need for Immediate Action.

The world economic crisis, the premonitory symptoms of which were first discernible in some countries in 1928, and which broke out in the autumn of 1929, entered a new phase and became more ominous in the summer of 1931. At the latter period the incessantly deepening economic depression had its repercussions, by the suspension of payments which it provoked, on international financial relations and led to the abandonment of the gold standard by a large number of countries, notably by Great Britain.

Already about a year earlier, competent observers had called attention to the serious part played in the prolongation and aggravation of the crisis by a psychological factor, the pessimism pervading the business world; but as the result of a number of financial bankruptcies and of currency collapses in the summer and autumn of 1931, the « confidence crisis » assumed unprecedented proportions. Not only that investors refused more and more to finance new undertakings and withdrew their support from established ones — entailing a steady fall in industrial quotations on the exchanges —, but, alarmed by the profoundly disturbing failures of large-scale industrial firms and the suspension of coupon payments by several States, they began even to distrust the securities which since the commencement of the depression had been specially favoured by the public, such as those bearing fixed interest, industrial bonds, and Government stocks. Increasingly they looked upon money hoarding as the best of investments, either in order to eliminate the risk of falling values which affected all classes of securities or so as eventually to profit by purchases when the values had sunk to their lowest and when, on the revival of trade, values began to soar.

(1) Save for the statistics brought down to date as far as possible, this Introduction is an exact reproduction of an article published in the *Annals of Collective Economy* for January-May 1932.

During the autumn of 1931, when the most stable of currencies, such as the English pound and the Swedish crown, had lost a third of their value on the stock exchanges, even the dollar came to be shaken by the panic. However, whilst in comparison to other gold currencies its exchange value declined but slightly, in the country itself, within a few weeks, anxious money holders exchanged hundreds of millions of paper dollars for gold at the Federal Reserve Banks, the gold joining the current notes in the long stocking when it did not replace them. In France, too, capitalists made a rush for gold in the autumn. It was no doubt at that fateful moment that the confidence crisis reached its height. If, on the one side, that stage may be considered, at least for the time being, as passed because of the slight appreciation of some of the most important securities, on the other side, in the form of a general reluctance to invest all and a refusal to take risks, the confidence crisis is by no means abating in most countries. On the contrary, it is becoming acuter, the fall noticeable in all domains (prices, production, exchanges, incomes, stock exchange quotations, etc.) feeding it, just as, in turn, it contributes to intensify the regression everywhere.

Since the autumn of 1931, another aggravating factor has become apparent as a consequence both of the accentuation and generalisation of the depression and of its financial and monetary effects. To obviate the danger of an unfavourable trade balance, a danger the more formidable as the confidence crisis holds up foreign loans, a certain number of States have adopted various measures aiming at limiting considerably their imports, notably by a system of quotas or by higher customs duties. Step by step, these measures have assumed such dimensions that the international exchange of commodities is suffering from an intensive protectionism which may be said to be, apart from the War period, without precedent. Here is a new factor of economic disorganisation, depression, and regression with which we must henceforth count and which, in its turn, contributes to aggravate the confidence crisis. It was during the closing months of 1931 and the beginning of 1932 that the most far-reaching of these measures were decided on. How, in the circumstances, can we help anticipating for the near future a further restriction in the world's economic activities if nothing decisive is attempted to counteract the crisis? (1) Or how can we help recognising that in this instance the « laissez faire » policy heads directly for disaster?

Let us now gauge statistically the regression during the last

(1) [As the subjoined figures show, this forecast has proved correct.]

three years. In 1929, the world produced 1,330 million tons of coal; in 1930, only 1,212 million tons; in 1931, 1,068 million tons; and in 1932, 940 million tons. The corresponding figures for iron and steel were 120 million tons for 1929, 95 for 1930, 70 for 1931, and 50 for 1932; for copper 1,879,000, 1,562,000, 1,339,000, and 905,000 tons respectively. For many commodities, the stocks have enormously increased — from 1 January 1929 to 1 January 1931, for American cotton 85%; by 1 January 1932, 150%; and by 1 January 1933, 194%; — for copper, by 82%, 130%, and 131%; — for zinc 233%, 229%, and 198%; for rubber, 90%, 142%, and 144%; — for sugar, 64%, 101%, and 104%; for coffee, 56%, 79%, and 49%, and so on. The movement of wholesale prices is expressed by the following figures taken from the United States index, the basis adopted being 100 for 1913: in 1929, average of the three first quarters (until the crisis), 139; in December 1930, 112; in December 1931, 98; in December 1932, 90. (1)

The drop in the national income of the United States is shown by the following figures: in 1929, that income was 85 billion dollars; in 1930, 65,7 billion dollars; in 1931, 552,4; and in 1932, 40 billion dollars. (2) There is here a drop of 45 billion dollars. We can easily imagine what such a drop means, not only for the United States, but for the world economy. The total national income of the United States for 1931, viz., 52,400 million dollars, only slightly exceeds (by 4,500 million dollars) the labour income for 1929, which was 47,900 million dollars. The latter fell from the figure given for 1929, to 33,200 million dollars in 1930 and to 24,900 million dollars in 1931, which is equivalent to a drop of 48% in two years. (3)

In Germany the national income was about 76 billion marks in 1929; in 1931, it was 50 to 60 billion marks, a drop of 21 to 34,2%. In that country, the income from labour, which was estimated at 44,5 billion marks in 1929, fell to 25,6 billion marks in 1932, a drop of 42,5%. (4)

From 1929 or, in some cases, from 1927 or 1928 — a date representing the culminating point — to the close of 1932, industrial shares declined on the stock exchanges, by 18,3% in Finland; by 35,4% in Norway; by 50,3% in Czechoslovakia; by 38,7% in Austria; by 50,6% in Switzerland; by 63,7% in Sweden; by 63,6% in Germany; by 57,8% in France; by 38,9%

(1) League of Nations. International Labour Conference, Sixteenth Session, Geneva, 1932. Report of the Director, International Labour Office, Geneva, 1932.

(2) « Income of People of U. S. down \$35,1 billions, 41,5%, from 1929 ». From *Business Week*, February 1932.

(3) No figures are available for 1932.

(4) *Vierteljahrsshefte für Konjunkturforschung*, part 3, 1931, pp. 41-44.

in Great Britain; by 72 % in Holland; by 79.3 % in the United States; and by 81.5 % in Canada.

In the United States, the aggregate value of 32 groups of industrial shares quoted on the New York Exchange dropped from 90 billion dollars in 1929, when the quotations had reached their maximum, to 31 billion in dollars in December 1931, a decrease of no less than 59 billion dollars ! (1)

International trade fell off enormously. For a total of 48 countries, the value of the exported commodities dropped from 149.700 million Swiss francs in 1929 to 119.800 million in 1930, to 85.100 million in 1931, and to 56.500 million in 1932. Here is a drop of about 93 billion Swiss francs in three years.

Most of these movements react on one another, or on others, and issue in a progressive aggravation of the crisis. The reduction in incomes owing to the reduction in purchasing power, leads to lower prices, which, in their turn, lead again to lower incomes. Similarly, diminished dividends lead to lower share quotations and these translate themselves into a reduction of capital which intensifies the need for thrift, restricts consumption, and thus increases stocks, diminishes production, and drives down commodity prices, profits, and dividends. This general contraction in economic operations lowers simultaneously both the incomes of individuals and of States. Budgets, accordingly, cease to balance and from year to year the disequilibrium is accentuated. Public expenditure is hence restricted. This leads to fewer orders, to the postponement of public works, to the lowering of the salaries of public servants, which again depresses still further the purchasing power of the population, drives prices down, and furnishes an added impetus to retrogression. Thus fresh drops in the public revenue ensue and a fresh disequilibrium in the budget.

Similarly with private enterprises. Efforts are made to improve the financial condition of enterprises by reducing wages and these lead to a heavy fall in purchasing power which has its repercussion on the receipt of enterprises and on their financial position. The industries of the various countries endeavour to snatch from one another what remains of the world market by reducing their production costs through effecting wage reductions. By the adoption of such a policy on the part of the industries generally, they bring about an increased restriction of their markets, that is, a new aggravation of their difficulties. The different national industries appeal to their Governments for the introduction of protectionist measures in order to retain as far as possible the whole home market and to aid them in

(1) *L'Information*, 6 February 1932.

capturing foreign markets. The total effect is to reduce still further the absorbing power of the home and foreign markets — in other words, to increase the evil they set out to overcome.

These multiple efforts terminate in a progressive aggravation of the labour market. The world over unemployment increases until it assumes the proportions of a plague. In a total of 25 countries, comprising, it is true, the principal industrial nations (save for Soviet Russia), there were at the close of 1929 8 to 9 million completely unemployed; by the close of 1930, this figure had risen to over 15 million; by the close of 1931, to more than 20 million — to between 20 and 25 million, according to International Labour Office statistics (1) — and by the close of 1932, to over 30 million. « This means that some 60 to 70 million persons are deprived of the means of existence arising from their own activity or that of those on whom they are dependent. » (2)

Here is the most poignant aspect, the drama of this crisis which evolves, develops, and progresses without any one being able to forecast when or where it will end, since at each new step in its progress it leads, through its repercussions, to a fresh diminution in economic activities and therefore to an aggravation of the evil. Over thirty million wholly unemployed workers at the close of 1932: such is the latest information. But how many will there be at the close of 1933, how many at the close of 1934, if a vigorous and systematic effort is not made to stem and turn back the current ?

In the mental confusion occasioned by this economic landslide, solutions and expedients have been suggested which have deeply stirred men's feelings. In Brazil, in order to prevent the head-over fall of the price of coffee, an export duty of 10 shillings per bale was fixed in April 1931, intended for the purchase and the destruction of a portion of the available stocks. (3) The system operates continuously week by week. In the United States, the Farm Board, animated by the same motive, advised cotton producers, during the summer of 1931, to abandon one row out of three of their harvest, a measure which suggested to an American economic periodical, in an article headed « Salvation by Suicide », the following reflections :

(1) League of Nations, International Labour Conference, Sixteenth Session, Geneva, 1932. *Report of the Director*, p. 14.

(2) *Ibid.*

(3) *Ekonometrisch-Statistische Berichte* (Economic-Statistical Reports), 15 July 1931, supplement No. 1, p. xi.

... If this were indeed the way out of depression, the best thing the government could do would be to appropriate a fund for the purchase of dynamite to blow up a third of our factories, houses, and railroads, and order us all to burn our stocks of commodities and our securities in a grand national *auto-da-fé*.

That destruction, active or passive, would be the funeral pyre of capitalism; for no economic system can justify itself and survive but by the effective creation and widest distribution of wealth; and if ours resorts to systematic sabotage of its productive resources to support the prosperity of a part at the expense of the whole, millions of men will see that it is not worth saving.

In the prophetic words of Owen Young's San Francisco speech a year ago : « If America burns her surplus wheat and cotton when men are hungry and underclothed elsewhere in the world, that fire will start a conflagration which we cannot stop ». (1)

But however disconcerting may be the idea of destroying wealth in order to stiffen the markets, it is impossible, on reflection, to be less moved by the thought of systematically restricting the output of new wealth by a deliberate decision of those economically in control. Now this is the sole practical method to-day whereby an attempt is made to combat the crisis. In the most diverse spheres, but more particularly in those of the production of raw materials, of certain semi-finished products, or of products of primary importance, powerful groups are bent on limiting output to the utmost in order to raise prices. Thus they practise, sometimes openly, that economic malthusianism which was formerly denounced as a brutal attack on the well-being of the masses.

Is it possible that salvation can be found in that direction ? Is it not rather self-evident that if, by this means, certain advantages may be secured for a few small groups of interested persons, the well-being of whole populations is sacrificed by systematically impoverishing the world ?

Diametrically opposed, and excellent in every respect, is the method which consists in increasing the present purchasing power by a bolder public works policy. The International Labour Office has started a vigorous campaign in this connection. It proposes an imposing scheme of large-scale European public works; it has set in motion the wheels of the League of Nations; it has opened a vast international consultation. It is pursuing this effort. Undoubtedly, magnificent results may be secured by such a policy, as soon as the financial difficulties involved have been satisfactorily disposed of. However, at the moment these are formidable because of the universally prevailing confidence crisis which is at the same time a credit crisis.

An international policy of public works, an international policy of currency and credit sanification, and a policy of international

cooperation in trade matters are essentials. In these diverse domaines far-reaching efforts, simultaneous and coordinated, could be and should be made without delay in order to stop the aggravation of the crisis and so as to prepare methodically the road leading to recovery.

We suggest, however, that an effort of another kind could be at once undertaken which would quickly yield decisive results because it accords specially with present necessities and which, therefore, by reestablishing confidence and reversing the direction of the economic current, would powerfully contribute to the success of cognate efforts.

(1) *The Business Week*, 2 September 1931, p. 48.

II. — The Principle underlying the Proposed Plan.

The leading idea inspiring our plan is as follows. It would be possible to find work for a considerable proportion of the thirty million workers who are to-day unemployed if, by appropriate measures, we succeeded in convincing employers who agreed to engage them, increased sales corresponding to the increase in output, the increased sales being produced by the increased purchasing power created by that very increase in output.

With the help of data relating to unemployment, on the one hand, and, on the other, to wages published in the *International Labour Review*, we have made calculations for a total of 20 countries having at the close of 1932 some 30 million wholly unemployed workers. (1) From these it transpires that there was a monthly financial loss resulting from wholly unemployed workers of 6,000 to 6,500 million Swiss francs in December 1930 and 9,000 to 10,500 million Swiss francs in December 1931, the latter figures corresponding to an annual loss of wages of 150 billion Swiss francs. If to these wage losses we add the corresponding and connected loss in revenue of the other factors in production and exchange, we reach, for the aggregate of these States, an annual loss of some 300 billion francs. If we now take into account the whole world, instead of only the 20 States referred to, we should not be far wrong in estimating an annual loss in income of between 350 and 375 billion Swiss francs.

Here, then, we have the supplementary annual purchasing power which would be recreated if we succeeded in finding employment for that vast army of unemployed. (2) The recovery of a half, a quarter, or, to begin with, even a tenth of this purchasing power would represent an achievement the importance of which could not be exaggerated, if only as a token of a saner economic tendency.

But, in framing such a hypothesis, do we not commit a *petitio principii* by assuming the possibility of a resumption of economic activity in a state of the world which is said to be in

(1) Australia, Austria, Belgium, Canada, Czechoslovakia, Denmark, Lithuania, France, Germany, Great Britain, Irish Free State, Italy, Japan, Latvia, Netherlands, Poland, Sweden, Switzerland, United States, Yugoslavia.

(2) If we added to the wholly the partially unemployed — of which there are today great numbers —, the figures which we have given would be considerably augmented. However, for want of sufficient data, we must refrain from any estimate on the subject, only mentioning in passing that the annual financial losses from this source run into tens of billion Swiss francs.

a critical condition precisely because the resumption of economic activity is impossible ?

This is tantamount to moving the « previous question ». If it were that in the present state of the world economy, a considerable percentage of industrial inactivity and of unemployment, a percentage which is growing from year to year and, within each year, from month to month, is both the expression of the existing disequilibrium and the condition for an eventual return to normality, it would be absurd to urge a scheme which sought to stimulate production and create new markets. Prudence would rather suggest quietly waiting for the natural development of events and the spontaneous receding of the crisis.

In our opinion, however, this conception rests on an incomplete analysis of the economic situation and on a confusion of essentially different realities and developments.

It would be correct to state that various disequilibria lie at the root of the present world crisis, some due to profound economic changes which took place during the War or since the reestablishment of peace, and others to certain economic developments during the years which preceded the crisis. Among the first we may mention the conditions created by the recent industrialisation of new countries, depriving thereby certain other countries of their old markets ; those which result from the advent or from the rapid development of new sources of power or new industries; those traceable to the extension and the raising of customs barriers, from the exceptional magnitude of international financial obligations and the obstacles erected by protectionist policies to the payment in commodities of debts due, the rapid and abnormal changes in the international distribution of gold stocks, etc. Among the second we may call attention to the growing disparity between the development in the powers of production and that in the purchasing power and consumption of the masses, a disparity connected undoubtedly with a certain disproportion between the evolution of profits and that of wages, excessive speculation in general and more particularly stock exchange speculation, etc.

How have the « cyclical » elements of the crisis superimposed themselves on its « structural » elements ? To examine this aspect would lead us outside our limited subject. We shall confine ourselves to stating that during the period from 1922 to 1923 (according to the countries concerned) to 1928 or 1929, the factors of the « structural crisis » of the post-war period could exercise their effect, and that profoundly enough, without this resulting in an arrested development of the world economy and without the unemployment which was one of its consequences — combined with the unemployment considered as normal in

the capitalist industrial economy — affecting more than some 4 to 5 million individuals in the whole world. This is a highly important fact, for it implies that there is a difference of some 25 millions between the number of wholly unemployed to-day and the number of wholly unemployed formerly, at the worst of times, due to structural crises.

If now the junctural crisis, attacking a world economy weakened by the structural crisis, has led to the extraordinary disorganisation of to-day and to an intensity and extensivity of unemployment without precedent, it would yet be a mistake to regard either that disorganisation or that unemployment as the pure and simple expression of the disequilibrium or of the system of disequilibria provoked by the crisis. That disorganisation and that unemployment are explained both by that disequilibrium or that system of disequilibria and by the repercussions of the crisis itself.

Once the crisis broke out, it became in and of itself a factor in its own development, irradiation, and propagation, just as prosperity becomes in and of itself a factor in its own development, irradiation, and propagation. This frequently noted fact is characteristic of all cyclical evolutions and represents one of the most constant symptoms in their history. But in our time, due no doubt to the confluence of the two crises, cyclical and structural, it has assumed enormous proportions. Never before had a decline led in such measure to a further decline and never before had a decline, by its repercussions, led to such developments. The value of the world output in eight categories of raw materials and cereals, (coal, iron, copper, petrol, wheat, rye, barley, oats) fell, from 1929 to 1930 and to 1931, from 163 billion Swiss francs to 124 and 103, the fall being by 39 billion from 1929 to 1930, by 21 billion from 1930 to 1931, and by 60 billion from 1929 to 1931. (1) These figures convey some idea of the prodigious difficulties encountered by the chief raw materials and cereals producing countries in paying the annuities on their international debts. They explain why most of them suspended payment and the financial and currency difficulties which followed. In their turn these difficulties generated new declines in the purchasing powers of the masses and were accordingly followed by new developments in the crisis.

So far as the extension of the crisis and of unemployment is the effect of the crisis itself, it should be regarded, not as an inevitable economic necessity expressing a profound disequilibrium whose development represents the very condition of a return to normality, but a simple accident, of the utmost gravity unquestionably, independent of ordinary processes and in a

(1) League of Nations, International Labour Conference, Sixteenth Session, Geneva, 1932. Report of the Director, p. 17.

sense pathological, exactly as a « complication » in an illness, which, whilst connected therewith, ensues indirectly and accidentally, wholly independently of its ordinary course.

Hence we do not misconceive the nature of the crisis and certain exigencies of the present economic situation if we aim at restricting, by certain efforts, the amplitude of the existing unemployment and of the crisis as such. On the contrary, we realise thereby the conditions precedent to a successful attempt to grapple with the causes of the crisis by the completest possible elimination of its « complications ».

We may be perhaps justified in going further and asking ourselves whether, in attacking the repercussions of the crisis, we should not succeed in eliminating everything therein which is due to the cyclical aspect, the series of changes which has taken place during the last four years or so (in the domain of prices, production costs, output, manufactured stocks, credits, etc.) and which constitutes, according to many competent observers, the objective conditions of « recovery ». Also, not a few maintain that it is the psychological element, the crisis in confidence, which bars recovery to-day and that if sufficiently important events restoring this confidence supervened, the economic current would reverse its direction and recovery would be rapid. This widely-held view, not least in authoritative quarters, attests at least that those quarters do not think that a systematic effort to lead the unemployed back to the work they left and to increase the output of factories would be futile at the present economic juncture.

However, we must meet another objection. Basing ourselves on the wages lost through unemployment, we have regarded this as the measure of the supplementary purchasing power which it might be possible to recover by finding work for the unemployed. Have we not thus implicitly overlooked the fact that the unemployed have not entirely ceased to be consumers and that therefore the surplus of purchasing power which we could accordingly regain would lie solely in the difference between their present reduced consuming capacity and the normal consuming capacity which they would manifest if they were once more employed ?

No; we have not overlooked this fact. We are well aware that it is exceptional for those who are unemployed to die of starvation. In some instances unemployment insurance during a more or less prolonged period; in others, administrative aid; and in still others, family support or public charity furnish them certain means of existence. In the case of unemployment insurance the help offered represents an appreciable percentage of the wage; in most other cases, a restricted and often insufficient subsistence.

But the purchasing power possessed by these unemployed

workers is gained at the expense of other social classes. Hence if their consumption has not been eliminated as their wages have, other members of society (tax and rate payers, parents, subscribers to collections) are correspondingly affected in their purchasing power. Accordingly, we may rightly contend that the return of the workless to their employment would restore to the community, taken as a whole, a proportionate supplementary purchasing power (leaving aside, of course, all connected income).

The method here suggested for recovering, certainly not all at once but by stages, a large part of the formidable purchasing power lost, assumes the very concatenation of the process of production and the sale of commodities existing under normal economic circumstances. It introduces, however, into this mechanism a new element to meet the special conditions of the crisis.

In fact, in a normally functioning economy production and sale are vitally interdependent, production — conceived in its widest sense, namely as the creation of products and services which have reached the point where they are offered to the consumer — engendering automatically the corresponding purchasing power.

Imagine an output of the value of 100, e. g., 100 billion Swiss francs, a figure which gives an idea of the value of the monthly output the world over. This value is the result of a number of services which, conjoined, are paid that sum in the following proportions, say: wages and salaries 57, interest charges 5, rent charges 13, entrepreneur charges (management, capital, risks) 25. (1) Here we see that by the very fact of this production, a value of 100 billion is offered for consumption — final or productive consumption —, whilst simultaneously there has been created a 100 billions' worth of purchasing power, the exact equivalent. This purchasing power, distributed among the different sections of society, is converted eventually into corresponding purchases.

It is true that to sell 100 billions' worth of commodities, it is not enough that there should be adequate purchasing power facing it. There must be also at least an approximate correspondence between the products and the services demanded and the products and services offered. But in normal times this correspondence is assured by a whole series of adjusting factors, among which we may mention, on the one side, the mechanism

(1) These percentages actually represent the distribution of the national revenue in the United States in 1925 (*Recent Economic Changes in the U. S. A.* Report of the Committee on Recent Economic Changes, of the President's Conference on Unemployment. Herbert Hoover, Chairman, New York, 1929, vol. 2, p. 767).

of distribution (wholesale, semi-wholesale, retail trade, etc.) and, on the other, the system of action and reaction, affecting notably prices and through prices supply and demand, which is currently expressed by « the law of supply and demand. »

Such are the means whereby under normal economic conditions the sale of commodities produced is assured, certainly not in an absolute and constant manner (for if this were the case there could be no sales crises and there would not have been the spectacle of a whole century of economic development periodically interrupted by overproduction crises) but at least sufficiently regularly and during sufficiently long periods of time to justify us in regarding those means as the normal condition of the functioning of the modern industrial economy and, more generally, of every economy working for a market. (1)

In our plan we allow for the combination of these different means, but we corroborate them, as we have indicated, by a supplementary condition. We base ourselves on the consideration that every act of production generates a corresponding purchasing power and that therefore a systematic and generalised development of production would have the effect of creating, in the community as a whole, a surplus of purchasing power, equal to the value of the surplus of production. On the other hand, we are bound to state that in the given circumstances it is not at all certain that if no special measures were adopted, this surplus of purchasing power would transform itself into a corresponding surplus of effective purchases.

It is at this point that two leading facts, the one objective and the other psychological, make their appearance. Marketable articles depreciate continuously, the means of production and the securities on the exchanges as well as consumable goods. This means that the purchasing power of money becomes ever greater. On the other hand, and as a consequence, purchasers restrict and defer as far as possible their purchases for a number of reasons indicated above. These reasons have been synthetised in the formula « confidence crisis », preserving to the utmost, as a simple « potential », a purchasing power which grows without ceasing, accumulating it as far as practicable instead of making effective use of it.

But if, faced by a growth in output, the sharers in the income derived from it, at least certain of them, resort to the policy of waiting, of holding back, of hoarding, the markets will be more

(1) We should transgress the limits of this paper if we proceeded to examine how the mechanism we have described combines itself with tendencies leading necessarily to crises. We can only refer to the few indications furnished above, whilst intimating that we may shortly return to this subject.

flooded than ever and the goal aimed at will recede instead of approaching.

How, then are we to ensure the regular and continuous disposal of the supplementary output contemplated, namely the rapid conversion of the supplementary *purchasing power* created by this production into *effective purchases*? There is a simple method whereby this object may be attained : to effect the remuneration for all the services rendered in connection with the production of the supplementary output by means of a mode of payment converting itself necessarily into commodities and only valid for a fixed period, say one, two, or three months.

It is, therefore, a question of creating, in present conditions and as a temporary measure, for all operations connected with an increase in economic activity judged indispensable in a higher social interest, an instrument of supplementary payment to be distinguished from the present-day currency in that it could not be converted into gold (of course, in most countries this power of conversion is suspended to-day), but compulsorily convertible into commodities and that its validity, instead of being unlimited in time, will be strictly limited. For instance, during a given month « purchasing certificates » will be issued valid till the last day of the following month.

It is evident that in the circumstances all those who directly or indirectly obtained possession of these « certificates » would be anxious to convert them rapidly into commodities in the establishments empowered to make the conversion before the expiration of the term fixed and that therefore, during the period stated, the total of the purchasing power created in the course of the corresponding period of production, will be converted into purchases.

This, then, is the core of our plan: to create an auxiliary instrument of payment which cannot be hoarded, nor converted into gold, nor be the object of cornering or other speculative manœuvres in the home market or in the international security market; but which inevitably involves the circulation of commodities, thereby ensuring work for the workless, work for idle machines, work for abandoned mines and fields.

III. — Organisation and Functioning of the System.

How would such a system function in practice ? We do not in any way intend to deal with the technical aspect of this problem, only to furnish some general indications.

To begin with, we shall touch on a few methods which, we suggest, should guide us in our deliberations.

In the first place, as we have already intimated, we ought to proceed by stages so as to ensure regular progress and to prevent all complications. Initially, for instance, the reemployment of 10 to 20 % of the workless might be aimed at. But in proportion as the consequences proved satisfactory, the process of re-engagement would be, of course, accelerated, unless owing to the decisive results obtained right at the commencement, it was judged unnecessary to continue with the temporary expedient. Seeing, however, the difficult times through which the world is passing, we esteem that it would be advantageous to apply the new method for a considerable period.

In the second place, the new system should be regarded as a temporary adjunct, and not as an eventual substitute for the present currency system. If experience should suggest certain lessons for the future, these would be noted. Here it is solely a question of an expedient permitting mankind to overcome a given crises an expedient in favour of which — matters of doctrine being here deliberately left aside — it is important to obtain without delay the maximum of support from all interested quarters, that is from all quarters.

It would be possible to conceive the new system as operating by means of free agreements between those concerned without the interposition of the public authorities. But the most efficacious mode of procedure and that which would yield quickest the results aimed at, would be one which set in motion the machinery of the State. The latter's interposition appears desirable both because of the primary importance which the problem has for the State and because the new system proposes a kind of auxiliary currency. This interposition is, however, compatible with the purely optional character of the participation of the interested parties.

Moreover, whilst the system may be applied nationally, its effectiveness would be considerably enhanced if it were simultaneously applied in a number of countries or in most, and this because of the facilities thus afforded for internationally marketing the supplementary output.

Another method would be manifestly to utilise maximally the mechanism of existing organisations and administrations. For instance, for the issue of the « certificates » it would be well to enlist the aid of the central banks of issue of the different countries. These would undertake the new service under exactly the same conditions as when, during the War, they were entrusted in a number of countries to manage the « loan banks » and to issue, alongside of their own notes, the notes of those banks.

A new entity should be called into being in every country to operate the new plan which is to counter systematically the present unemployment and economic crisis by the creation of new opportunities for work.

In countries where a National Economic Council exists, the new organ — which might be called National Office for the Encouragement of Production — could to a certain extent emanate from it. The central bank of issue would necessarily have its representatives on the board of the Office. Furthermore, the representatives of the industrial and commercial associations should be supplemented by representatives of labour and of the consuming public. If necessary, a corresponding international organ, charged with the coordination of national efforts, might be established.

Without descending to particulars, we desire to furnish a few indications on the functioning of the system as we conceive it, indications intended solely to illustrate its applicability. The purely technical aspects cannot be dwelt on here.

A public welfare enterprise. — It would be most desirable that, once the question of principle is settled, the highest authorities of the participating countries and, if possible, the competent international organisations should recommend the work undertaken by the new Offices as one aiming at the promotion of the public welfare. Such moral encouragement would greatly assist in securing the speediest and fullest collaboration of the parties concerned. These parties should be appealed to, the appeal insisting on the complete concurrence of their personal interest and of the public interest, and end by proving this.

This concurrence follows notably from the fact that, until a certain output is reached, factories work at a loss and that, beyond this, profits start and grow proportionately with the output. Thus a number of fixed or nearly fixed charges will no longer weigh heavily, or less and less so, on the production of the supplementary output.

Optional participation. — Notwithstanding the immense importance of the heads of industrial and commercial establish-

ments participating in the realisation of the scheme in great numbers, such participations, we think, should be optional. Each participant should freely enter into an engagement after full examination of the facts and to the extent he deems it advisable. It will be the duty of the authorities generally and more particularly of the new organisation to adopt adequate measures to promote the adhesion and the active participation of the interested parties.

The affiliated establishments will be entered in lists kept up to date. Commercial houses, especially retailers, would display a notice, supplied by the new institution, reading : « National Office certificates are accepted here ».

In fact, the advantages offered will be so great that very soon participation will be general.

Engagement of unemployed workers and delivery of certificates. — The object of the whole system is to bring back the unemployed to their proper work and to ensure the normal functioning of all the economic activities connected with their employment. We may therefore start with an appeal to industrial employers inviting them to engage, for example, unemployed workers in the ratio of 10 or 20 % of their present staff. Such engagements involve not only labour charges but those for raw materials power, and the like. If, in present circumstances, employers are to be induced to engage additional staff, they must both be convinced that they will be able to market proportionately more and receive advances enabling them to expand their activities. This suggests the idea of their obtaining credits equal to the total of the extra expenditure involved.

The opening of such credits raises no difficulty since, according to the very principle of the system proposed, the credits represent an advance of purchasing certificates, wherewith the manufacturer will pay his workers, his furnishers of materials, and others.

But if the system is to work efficiently, we must not stop here. Indeed, the supplementary output which the manufacturer is able to market because of the unemployed workers he has engaged, will have a value higher than the new charges falling on him because of the increased output, this increase corresponding, for example, to the ratio of his establishment charges, including financial ones, as well as to the establishment services represented by profits.

In order that the manufacturer may in the course of a given period — one, two, three months, say — put into circulation, in the form of certificates, a volume of purchasing power precisely equal to the volume of supplementary output which he has produced through the engagement of new workers, the Office must

place at his disposal during that period a number of certificates precisely equal to the total of that value. The credit to be opened at the beginning of a week, a month, a quarter, or during a given period, should therefore comprise the total of the value produced because of the new workers engaged.

In virtue of this formula each participant places on the market during a given period a volume of supplementary commodities and a volume of purchasing power of equal value, ensuring thus the maintenance of the equilibrium.

However, if the system is to work properly, we are bound to remember that alongside with the producer are the distributing agents, their services, and the cost of their services. Here, for instance, is a boot manufacturer who engages additional workers and who in a month produces an extra 500 pairs of boots worth 10,000 francs. But this is the *cost price*. In the boot store these 500 pairs will be worth not 10,000 but 13,000 francs, and it is at this retail price that the holders of purchasing certificates will acquire them. Hence in connection with the manufacture and the sale of these 500 pairs of boots, it is not only necessary that a purchasing power of 10,000 francs be put into circulation, but at the same time the retailers must receive for their services and their expenses (they may have had even to engage additional staff), a credit of 3,000 francs.

The opening of credits. — Should the credits be granted free of charge or should they bear interest? They might be issued gratis, as they consist, not of borrowed capital, but of certificates whose cost is only that of their manufacture. The free grant of these credits would appeal to the manufacturers and vendors invited to participate and we are therefore inclined to favour it. But probably a very low rate of interest may have its advantages inasmuch as it might expedite the reimbursement of the advances by ensuring the return of the certificates to the National Office as soon as possible after they reach the vendor and the producer.

The circulation of the certificates. — Since the certificates are valid for a given period only, they must be exchanged for commodities without undue delay. Their proper function is therefore to ensure the marketing of manufactures and their being exchanged in the stores that sell the output of the factories which have engaged the unemployed workers. When the certificates have once reached their normal destination, those who have received them can therewith repay the sums they have had advanced.

But it may happen that some certificates have already been put into circulation. Would this constitute a disadvantage against which we ought to adopt certain precautionary measures?

We do not think so. If certificates should circulate in the place of currency notes, where would be the disadvantage? And if, owing to the certificates, the circulation increases (independently of that resulting from their proper object, the purchase of more commodities), this increase can only be welcomed in a time of crisis where the evil to be combated is an insufficient circulation.

Given that the certificates put into circulation represent the counterpart of the value of the goods manufactured and that they will fall out of circulation as soon as these goods, have found their purchasers, it would be wrong in this connection to speak of *inflation*, since the latter consists exclusively in « an increase in purchasing power without a corresponding increase in the commodities available, whence results a disequilibrium between production and circulation ». (1)

Certificates and the payment of taxes. — The utilisation of certificates for the payment of rates and taxes would be unavoidable in the case of those whose income consisted solely of certificates, e. g., for the re-engaged unemployed. The State and, generally speaking, the public authorities should therefore admit, at least in certain cases, the payment of rates and taxes with certificates. But really there is no good reason why this should not be a general rule, at least in regard to all those whose whole or partial income consists of certificates. Similarly, public collectivities may themselves, in the most direct and simple manner, effect a part of their payments in certificates: payments to their contractors who can utilise them at once for their purchases; payments, to a certain extent at least, to their staffs; payments to workers newly engaged for the execution of public works; payments to unemployed so far as any are still left; etc.

We may add that those receiving these certificates will be in no way disadvantaged compared with others who receive their income in currency, if we leave aside speculative hoarding which is bound to defeat itself and which would be swiftly suppressed through the functioning of the system (as will be shown later).

Quality and price of commodities purchased with certificates. — When a store-keeper, to attract more customers, displays the notice: « National Office certificates are accepted here », he agrees by this very act to accept certificates in the place of money. It is only after the price has been agreed on and the choice has been made that some customers will tender for their purchases certificates. Discriminative dealings are therefore out of the question.

(1) L. Baudin, « Inflation, chèque, et théaurisation » (« Inflation, Cheques, and Hoarding »), in *Revue politique et parlementaire*, 1925, p. 407.

Moreover, the National Office would not be impotent in the case of dealers who, by certain devices, attempted to discriminate and thereby prejudiced or tended to prejudice this socially important work. It could mete out severe punishment simply by striking the dealer off its list.

Certificates and saving. — But even if, so far as quality and price of purchased goods are concerned, no objection could be raised would not the certificates suffer when compared with money which can serve not only for making purchases but also for investments? This question or objection seems based on a confusion between the meaning of saving and hoarding.

By definition, certificates cannot be hoarded, since they lose all their value after the lapse of a certain brief period. Money, on the other hand, whether in specie or notes, may be hoarded, *i. e.*, withdrawn from circulation and laid aside (in stockings, drawers, or safes) for an indefinite space of time. On this point there is an absolute and irreducible opposition. Indeed, the object of the certificates is precisely to render hoarding impossible, at least for the supplementary portion of the means of payment, and thus to assure in corresponding measure the production and marketing of commodities, that is, the finding of employment for the unemployed, the setting in motion of idle machines, and the working up of new materials.

The certificates are undoubtedly the negation of hoarding, but certainly not of saving which is nowise to be confounded with hoarding.

Men may save by hoarding, an operation formerly indulged in on a large scale and which has been recently revived because of the heavy decline in prices. But since the advent of the modern economy, the normal form of saving has been through investing, a process which consists primarily in loans to individuals or companies for productive purposes or in loans to Governments for similar or consumptive ends. Now there is no sufficient reason why the certificates wherewith products or consumable goods may be purchased should not be used for investments, exactly as money. Suppose that a Government is resolved to carry out an extensive programme of public works. It issues bonds. Some of the subscribers subscribe with certificates. These certificates are subsequently utilised in the purchase of material, the payment of wages, etc.

Not only may the certificates be used for saving purposes, but the new system, in permitting, by increased production, a saving in certificates, will contribute to the financing — and therefore to the carrying out — of programmes of public works.

Certificates and the international exchange of commodities. (1) — If the competent international organisations were to pronounce themselves in favour of the plan here sketched for combating unemployment and the crisis and were to cooperate in its realisation, its international operation would be forthwith assured in the most auspicious conditions and the international exchange of commodities at present declining rapidly, would quickly recover.

But even if we waive this hypothesis, we may yet anticipate that the new system will have favourable repercussions on international trade. Here is an example. A Swiss clothing factory, which has increased its output through the new system of engaging a large number of unemployed, proposes to an English house which supplies it with woollen fabrics to make on its behalf a purchase for a million Swiss francs if it agrees to accept payment in certificates issued by the Swiss National Office. The English house informs its Australian wool producer that it is prepared to purchase from him 500.000 Swiss francs worth of wool provided he accepts payment in certificates of that Office.

The Australian vendor, like the English one, placed before the alternative « to sell or not to sell », accepts the condition, deeming that their bankers will readily find Australian and English traders respectively who require Swiss commodities and who can therefore utilise the certificates. The million Swiss francs, in the form of certificates, is therefore forwarded to England whence half that sum is despatched to Australia. The English house sells its woollen fabrics, the Australian breeds his wool, and the Swiss manufacturers their watches, their machines, their chocolates, and their pharmaceutical products.

The concordance existing between the supplementary output and the new demand. — But, it may be objected, will the operation of the system not be adversely affected by the fact that the supplementary output of the manufacturers who engaged a certain number of unemployed workers does not exactly correspond to the demands of the bearers of those certificates? There will be identity, it is true, between the total value of the commodities produced and the total of the purchasing power created during the corresponding period, expressed in certificates; but the correspondence in the value of the demand and the supply is not at all the same thing as the correspondence in the nature of the articles supplied and demanded.

By anticipation, we already answered this objection when we endeavoured to show how in our economy in normal times the

(1) The considerations developed in this Section are at the basis of my volume entitled *A Gold Truce*, a Constructive Plan for the Revival of International Trade.

economic apparatus of supply and demand ensures in a general way the concordance between the two factors— supply and demand.

In view, however, of the importance of the question, we shall subject it to a renewed examination from the standpoint of our plan. Imagine that the system is beginning to be applied; that at the commencement of the week new workers have been engaged in a large number of factories; that at the end of the week the wages have been paid by means of purchasing certificates; that the manufacturers and traders participating in the system have received the certificates wherewith, to the extent of the corresponding services rendered, they are enabled to make payments for materials, for machinery, for personal purchases, etc. In the stores which accept the Offices certificates, customers ask for the most varied articles and salesmen offer their actual stocks. Day after day, parallel to the continuation and to the increase in the supplementary output, the retailers, whether storekeepers or cooperative societies, are frequently asked for what they cannot offer. They, in their turn, stimulated by these enquiries, send, as they are accustomed to, special orders day by day and week by week to the manufacturers and thus the factories come to produce the articles in demand.

There is in this way a perfectly natural adjustment of supply and demand. However, not an immediate, but a gradual one. If, therefore, at a given moment, there has been an excessive output of certain articles, production is slowed down; if an insufficient one, it is accelerated. Probably at no point of time will there be an exact correspondance. But as stores work necessarily with stocks, the mistakes on one side or the other cancel out and, on the whole, given a sufficiently long period, the movement of supplementary production will fairly correspond to that of the new demands. Hence we fail to see any difficulty in this direction.

However, to avoid certain mistakes, it might be advisable to entrust a special department of the new institution with the task of furnishing advice concerning types of articles not in demand at a given time. The granting of credits might be subject to certain conditions concerning the nature of the commodities to be produced and their appropriateness in view of the general economic situation.

Development and repercussions of the system. — We have admitted that the supplementary output should be to begin with confined within modest proportions in order that experience might offer the maximum safeguard against imprudent courses. But week by week, as the results obtained prove satisfactory, fresh contingents of unemployed workers should have employ-

ment found for them, the ultimate object being the total remobilisation of industrial energies.

Whilst, however, this system pursues its own particular efforts, its external repercussions cannot fail to modify radically the existing situation and to set in motion new forces tending towards a general recovery. Likewise, the demands made by the new productive requirements for semi-finished articles and raw materials will tend to raise the prices of these articles and materials, that is, to reverse the movement which has now continued for nearly three years. Now, as is well known, the movement in the prices of semi-finished articles and raw materials represents a decisive element in the general economic situation. As soon as this reverse movement sets in, the general state of the markets will be modified and, through it, the movement of production. To-day the latter is in constant regression; but it will come to life again and react, in its turn, on prevailing prices. All the actions and reactions which we have dilated on in our sketch of the development of the crisis will now exercise the opposite effect. The upward movement of prices and that of production will react also on the financial market. Capital, roused from its long slumber, will rush to investments which have become once more remunerative and unproductive funds will be productively utilised. The hoarded money will emerge from its numberless hiding-places. Heightened activity will increase purchasing power, as increased purchasing power by translating itself into increased purchases will, in turn, stimulate activity.

We do not mean to say that we expect from such a revival a return to an entirely normal economic condition and, less still, the establishment of a stable equilibrium. Great efforts require to be made in the most diverse directions to eliminate recent or older disturbances which have profoundly shaken the world economy and to ensure its continuous and harmonious development. But at least the prerequisites of a constructive policy will be realised and it will be in an atmosphere of confidence that mankind will set to work to prevent the return of depressions such as the one we are passing through and to prepare a happier future through international cooperation.

Is this not sufficient to justify the efforts and the modest sacrifices which the realisation of the plan here proposed would entail? And even if we cannot have the absolute certainty that it will fully attain its object, would it not be worth while, in the present tragic world situation, when gloomy prospects and fears of a catastrophe haunt men, to essay at least the way of escape here proposed?

(Translated by G. Spiller, London.)