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PEACE ECONOMICS[1]

BY JAKOB MARSCHAK

Shall We Think of Peace?

As long as friends of democracy, throughout the world, are not all killed or confined to Hitler's concentration camps, there is one thing they cannot afford. They cannot afford to believe in his ultimate and lasting victory. There is no reason whatever to accept as scientific truth Hitler's claim of having determined, or being about to determine, mankind's destiny for the next thousand years. But if we begin to believe it, it may become true. Because it is our resistance that prevents it from becoming true.

Therefore it is important to make our minds clear as to what alternative we have to oppose to Hitler's utopia, while it is still a utopia. To give up as "unrealistic" any attempt at clarifying and mobilizing our own ideas and ideals, is to give up all struggle. It is sheer panic. The story of the German democratic leaders before, and of western appeasers since, 1933 has shown what happens when fear parades as realism.

Perhaps one of the worst curses we have inherited from the optimistic nineteenth century is the mystic belief in "trends," the pseudo-science of the inevitable. It is logically worthless. It was, in good times, medically useful as a tonic. It is a poison now.

Those whose job it still is to think about history, or politics, or economics, should make a little effort, and formulate and defend their aims, as Hitler formulated his, in the days when he was an obscure and "unrealistic" rebel. We know that the economic regime of the democratic countries has not solved successfully the problem of unemployment; that the democracies' moral and religious beliefs have been losing vigor; that their diplomatic and military skill has so far proved weaker than Hitler's. Yet we don't want Hitler and his methods. What do we want then? Nobody

[1] This article has been prepared in connection with a research project of the Graduate Faculty.

desires a status quo. But we want our liberties preserved. Is freedom incompatible with economic welfare and efficiency? With the sense of moral duty? With a political organization of the world other than a conglomerate of jealous sovereignties, shortsighted and weak in the presence of any bully?

Take the economic problem. Is it true that nothing short of complete regimentation can solve it? Many assert this, but nobody has proved it—unless, of course, a census is called regimentation, and the unbalanced budget a restriction of freedom. How much of the unemployment which has confronted democracies has been due to their leaders having been democratic, and how much to their having been shortsighted, ill-informed, superstitious, lacking in initiative or imagination, hesitant, weak, lazy? Is democracy necessarily indolence? I don't think this has been proved. Much has been learned from the experience of the last two decades, and I believe it can be shown that most mistakes of economic policy of that period could have been prevented without sacrificing an ounce of democratic substance. Moreover, a very considerable amount of clear and courageous economic thinking has been done in these years, and has produced results of which the practical men of democracy might very well avail themselves, although these results are as yet far from being understood outside the specialists' circles.

This is true of national as well as international economic policies. The difference is only this: if it is possible to visualize a democratic country which has reasonably solved its internal economic problem, it is one degree more utopian to assume that the whole world might consist of such countries. The present ideological war may end with some agreement or *modus vivendi* between the contestants. It is an old practical requirement that a political program-maximum should be flanked by a program-minimum, at least a provisional one, as a program of armistice if not of peace. This means, in particular, that when we outline the techniques of international cooperation we need not confine ourselves to the one assumption that all partners have the same type of economic organization. If this assumption is made, certain simple consequences and recommendations follow. If it is dropped, certain other techniques become necessary. Both alternatives must be considered, since there is no way of knowing which will be chosen by history. If nobody takes the trouble to consider either, history may choose a third, the totalitarian solution: domination of world economics by an armed oligarchy.

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To be sure, a cooperation of economic communities within "a world divided against itself, half free and half slave" can hardly be more than an armistice. But there are short and long armistices. For example, compromises were tried for decades, and temporarily brought to success, before the generation of Lincoln realized their futility. Is our generation sufficiently strong to disdain compromises? Sufficiently farsighted to aim straight for final goals?

Besides the economics of durable peace and the economics of armistice there is the economics of war, the most urgent and realistic of the three. So urgent that a quarterly journal like this is probably too slow a vehicle to carry discussions on war economics. Problems like that of cooperation within the western hemisphere, in defense of this country's economy against German or Japanese expansion, are problems in war economics, very much like the attempts of Britain in the Balkans immediately after Munich. We know now that those were very urgent attempts indeed.

The subject of the present article is less "realistic" and urgent in the sense of dealing with an immediate future. Yet it is urgent in the sense that clarity of purpose is necessary for an intelligent fight. Peace aims are war aims.

Shall We Think of Economics?

No one—or hardly anyone—would contend that economic unrest is the main or only cause of the catastrophe mankind is now going through. Yet few men doubt that it is one of the causes.

I inquired recently among my German colleagues (in exile, but capable, I think, of unbiased recollection). They all confirmed my own impressions of 1926-28: in those years of prosperity few Germans really worried about Versailles. The curve of the electoral successes of the National Socialists closely coincided with the fluctuations of unemployment. Of the items of Versailles, the reparations clause was the only one which prevailed in the public mind far above all others: not disarmament, not the paragraphs concerning "honor," not even the change of frontiers, apart only from the regions on the country's periphery economically hurt by the painful dislocations of markets and the necessity of adjustment which the new frontiers involved in a protectionist Europe.

No peace will be a lasting one with the economic problem unsolved. The Nazis probably know this. It is doubtful that they intend to rely, in dealing with the conquered peoples, on Secret Police alone. They will try to keep their slaves at least moderately well fed—Hitler himself has expressed his conviction that the conquered nations will be glad to have exchanged freedom for economic security. It is true that the wellbeing of the dominant race, and not a general and just welfare, is the supreme goal of the National Socialist economic policy. Economic geography will be corrected, industries redistributed, populations resettled, flows of goods redirected, to serve that goal. But Nazi economists seem to hope that their organization of world economics will be efficient enough to support a rich and armed Germany while keeping the workers and farmers of the conquered world in full employment at living standards sufficient to soothe the spirit of revolt. This is not in contradiction with the policy of removing the natives from all positions of privilege and leadership, including perhaps the jobs of industrial and commercial managers. We know too little of the actual situation in Czechoslovakia, the oldest of these colonies, but we know enough to reject the supposition that the German administration will necessarily (unless it loses its head and gives vent to emotions, as in the case of the Jews) emulate the uneconomical Mr. Simon Legree, Uncle Tom's last master.

It is probable that the Nazis are now giving more attention to the economic organization of their world than the victorious democracies did in 1918 with regard to theirs. We all remember Mr. Keynes' bitter complaints of the "economic consequences of the peace." Again, we need not believe that shortsightedness is a necessary attribute of democracy. The mistakes need not be repeated.

"World Planning"

Theoretically, the centralized planning of this planet's economy, a German method, might be applied to other than German aims. Theoretically, one could imagine the resources of the world organized by very good and wise and democratically elected men, not for the exploitation of the many by the few, but for the benefit of all. In fairy tales there are bad giants, but also good ones; and the good giant's dream might be as colossal as the Nazi nightmare, yet just and pleasant. It is to be doubted, however, that the solution of the economic problem actually requires world planning. It is to be doubted, in other words, that it requires an immediate and complete abolition of national states and free markets.

It is not necessary, as far as the outlines of economic solutions are concerned, to make any assumption as to the world's future political constitution, beyond the assumption that certain economic agreements will be made and kept, and certain technical institutions set to work. In this the problem of peace economics is independent from, and easier than, the problem of peace politics. But its solution would make the political problem less important: for example, the notorious "unequal distribution of raw materials" among the various political units becomes almost irrelevant if impediments to the export of finished goods disappear.

Nor is it necessary, for the achievement of a decent international economic order, to subject consumers to a supremely wise and well meaning planning authority. Recently socialist economists,[2] for the first time applying to their problem tools of modern economic theory, found that a free market for consumer goods, and even for

[2] A. P. Lerner, O. Lange and others; see also Eduard Heimann, "Literature on the Theory of a Socialist Economy" in *Social Research*, vol. 6 (February 1939) pp. 88-113.

labor, is probably the safest guarantee for the best allocation of national resources to various productions (and to leisure), provided that the amount and use of national savings are determined by central bodies and that industries which naturally incline to a monopolistic or semi-monopolistic organization are entrusted to public managers, not pledged to the principle of maximum profits, and expanding production to the point where marginal costs reach price. The Russian system before 1929 (profitmaking publicly owned "trusts"); its successors, the centralistic "five-year plans"; the German compulsory cartels, artificially preserving the plants of their members rather than working the best ones at full capacity—certainly none of these methods represents the "last word." One should try, therefore, not to be too fascinated by the totalitarians' slogan of "planning." Their 80-ton tanks are formidable—when used against democratic pea-shooters. But democracies need not use pea-shooters.

It is impossible here to discuss world federation as compared with world monarchy, or free markets as compared with planned markets. Fortunately no such discussion is necessary for the problem in hand.

Three Postulates[3]

The satisfaction of people's desires in the best possible way—this and nothing else is "the economic problem"—requires three conditions, three ways of raising the standard of living.

[3] What follows is of course in no sense new to anyone who has pursued the discussions of the last ten or twenty years. It is, I think, the common opinion of a very large body of today's economists. The ideas may be said to have originated mainly, although by no means exclusively, in the Cambridge of Keynes and Robertson, and in Sweden; younger German economists of the early thirties—in Kiel and Frankfurt, some even in the Reich ministry of economics and in the trade unions—also knew something of the subject. Names of important pioneers are enumerated in J. E. Meade, *Introduction to Economic Analysis and Policy* (American ed., in collaboration with Charles Hitch, and with a foreword by Alvin Hansen, New York 1938). Meade himself achieved great clarity in classifying economic policies according to these three postulates, and in applying with courage and perspicacity the results of economic theory. See his more recent and more popular *Economic Basis of a Durable Peace* (London 1940). I am also greatly indebted to Mr. Albert Halasi for long and profitable discussions of this subject.

First, there should be no idle resources. These are resources (men, machines or land) which are intermittently in and out of use, as a result not of natural causes (seasons, time required in shifting from one job to another and the like) but of lack of foresight. The first postulate is therefore equivalent to a requirement that booms and depressions be mitigated.

Second, resources should be allocated to various industries in such a way as to achieve the most complete possible satisfaction of the consumers' desires. Economists know that monopolies (or, in more general terms, the various forms of imperfect competition) and restrictions of international trade and migration impede the optimal allocation of resources; this means lower income rates for the urban and rural populations or (if workers resist) unemployment. It follows that the loosening of such restrictions would be a way toward optimal allocation, although it does not follow that this is the only way. On the other hand, it has seldom been denied that some "desires" of the democratic state itself—the political representation of consumers—may usefully appear in the market along with the desires of the individual consumers, and that the state's "desires" for hygiene, defense, education and the like may be usefully served outside the market precincts.

Third, resources should be developed wherever possible, and in the best possible proportions. The mineral deposits, forests and farming soil of the so-called backward countries can be brought into use, their populations rid of epidemics. This does not exhaust even the purely economic side of the colonial problem, inasmuch as the "desires" of native consumers (as under the second postulate, above) may be different from the desires of the colonizers. But it is sufficient for present purposes to state this postulate in its general form. It also includes, of course, the necessity to keep up the old countries' equipment, to repair war damages.

The three postulates—full use of resources, proper use of resources, development and upkeep of new resources—are obvious. But although all three are equally obvious the first has been overlooked, until comparatively lately, in the discussion of an international economic order, and, I am afraid, in the handling of international economic affairs. Practical men have not become "trade-cycle minded" until very recently, and theorists have often disliked looking upon unemployment as anything more than an unpleasant exception to logically beautiful rules. On the other hand, the second and third postulates have found adequate attention, at least on the part of thinking men, and nearly as often on the part of acting men. "Down with Tariff Walls" has been a favorite Jericho trumpet with speakers at women's luncheon clubs as well as with foreign secretaries all over the world, ever since 1919. Tariff walls, however, have grown thicker and taller. International cartels have proved, on the balance, only a variety of restrictionism. Quotas and exchange restrictions—those still more formidable weapons for deflecting the world's resources from their best possible uses—have been applied. The Jericho trumpet has proved a decidedly weak instrument. But it has continued to be sounded, to the exclusion of any other.[4] Thoughtful people have begun to ask whether, after all, there may be factors strengthening the walls other than mere wickedness of vested interests. One finds, on closer inspection, that protectionist measures were used (apart from military considerations, which began to get the upper hand much later) to fight the slump and its consequences. Here the "first postulate," the necessity to remove depression, comes in: idle resources must be put to work. In so far as idle resources are due to the workers' resistance to accepting low wage rates, and in so far as low wages are due to a low national output, brought about by monopolistic or protectionist barriers to trade, free trade would indeed help to put idle resources to work. But certainly monopoly and protectionism are not the only causes of slumps.

The problem of depression has similarly been overshadowed, at times, by enthusiasm about the earth's untapped natural resources. At the outbreak of the war British "peace research," inspired by

[4] Even as late as the spring of 1940. No other suggestions were contained, for example, in the memorandum on foreign economic policy handed on March 9 by Sumner Welles, Under-Secretary of State, to Paul Reynaud, then French Minister of Finance (text published in New York *Times*, May 4, 1940).

prominent biologists, concentrated mainly on this one phase of mankind's economic worries. Whether led by democrats or by totalitarians, European technicians of all kinds will certainly have work aplenty, not only extending economic equipment in exotic lands, but also repairing it nearer home, wherever it has been damaged by war. The financing of both repair and expansion will keep economists busy, will probably furnish for some time the more interesting questions of the economics of armistice. It seems to me, however, that the main importance of this repair and expansion will lie not so much in the future productivity of the new equipment as in the fact that repair and expansion are obvious and convenient outlets for current investment, and hence an instrument for fighting depression. In the years 1914-18 northern France, Belgium and Poland were devastated in a long war of trenches, a more destructive war (some people contend) than the blitzkrieg. In the two decades which followed, these areas had to be physically reconstructed. In addition, industrial and agricultural stocks elsewhere had to be replenished. Housing facilities and transport equipment, unrepaired or overworked during the war, had to be overhauled everywhere. Nobody thinks now (although many thought so during and after the conclusion of the World War) that these were the really difficult economic problems of 1919-39. This reequipment of mankind started at once and progressed smoothly. In the process we achieved more than mere reconstruction, for we added highways and automobiles, and enlarged the cultivated areas in the tropical and sub-arctic regions. Not the expansion of equipment, but its full and proper utilization was the real problem. And here again the "first postulate" comes in: idle resources must be put to work.

In insisting on this particular focus of the economist's attention I intend not to underestimate the other two aspects of the problem, but only to stress that aspect which the non-specialist is likely to overlook, the one that has been less often emphasized than the tariff question and is less spectacular than the task of physical reconstruction and expansion. Of course, it cannot be taken for granted that the financing of reconstruction will again follow the ways of 1918-28; it was then based on Americans' confidence in Europe's future, until that confidence was first overshadowed by their still more vigorous confidence in a domestic prosperity, and later destroyed in the general depression. It may well be that after the present war this country's savings will from the outset be hesitant about leaving, attracted as they will be by this nation's own armament needs, and perhaps reluctant to repeat certain unpleasant experiences of lending abroad. That may mean that underequipment, and not underemployment, will be Europe's problem after all; but more likely there will be both.

Also, I do not wish to deny the danger of foreign trade restrictions; I contend only that, without depression, they would not assume such formidable dimensions. After the collapse of 1929, and because of it, superprotectionism advanced by leaps and bounds. Why? Simply because it was the only policy which provincialist governments could implement, and which a provincialist public opinion would support: the policy of *sauve qui peut.*

"Sauve Qui Peut" and "Collective Security"

Depression—unemployment, low profits, low prices for the products of farms overwhelmed with debts—has produced more unrest, and has been responsible for more dangers to the peace of the world, than any difficulties in reconstructing equipment damaged by war or any delay in the development of new resources. Through the policy of *sauve qui peut* it has been attempted, in one country after another, to fight unemployment by protectionist measures—measures calculated to help one country at the expense of others.

In the political sphere recent events have shown the foolishness of *sauve qui peut.* If the governments of the Low Countries, the Scandinavian countries, England, had foreseen these events they would have chosen collective security. Not out of any internationalist ideology but for considerations of coldest *sacro egoismo,* of hardest boiled *Realpolitik,* they ought to have done so. Again, shortsightedness has nothing to do with democracy. The autocrats of Russia, Prussia, Austria and the petty German states, bickering and intriguing in the face of Napoleon, showed no better judgment than the modern democracies of northern Europe; nor do, at present, the several Balkan dictatorships.

In the economic sphere the governments tried to keep men and machines on their jobs by taking jobs away from foreigners, that is, by curtailing imports and stimulating exports. This was the economic *sauve qui peut* in the face of depression. It was done by outright restrictions of imports, but also by other measures which make foreign products expensive at home and home products cheap abroad—by "favorably" influencing the relative levels of prices. The difference between domestic and foreign price levels can be influenced either by altering the exchange rate between domestic and foreign currencies (devaluation) or by keeping the exchange rate constant but depressing the domestic cost of production in terms of domestic currency, mainly by cutting money wage rates (deflation). These wage cuts may be ordered by governments (for their own employees), or they may be agreed to by unions under the threat of unemployment. In either case they have been politically pernicious, for it was difficult to explain to the workers that, with low wage rates and low prices, they would be as well off as before, and difficult to convince the businessmen that the fall of prices, once started, would not continue. Thus even a country's own people did not behave as they should. With other methods—import restriction and currency devaluation—it was the foreigner who misbehaved; his government answered every measure by a countermeasure, a retaliation. A race of restrictions and devaluations, the notorious "beggar my neighbor" policy. Since everyone is a foreigner to someone else, this meant a general restriction of employment instead of its extension.

There is another way, however, of stopping the spread of unemployment: by maintaining the buying power of the poor (the nonhoarding part of the population). Public works, usually implying a deliberate budgetary deficit, is one of the ways of achieving this; unemployment relief is another; policies of cheap credit a third;

deliberate cyclical changes of the tax burden and of its distribution a fourth; credits to employers (wage subsidies) to keep their works going a fifth. In substance they all amount to the same thing. They were all used, or intended to be used, if not for economic, then for social reasons. But this meant maintaining a higher price level in comparison with countries which had not yet applied the same policy, or no longer applied it, and, especially, in comparison with countries which depressed the relative level of their prices in order to stimulate their exports and decrease their imports, and thus push away the foreigner. Thus a country which fights unemployment by maintaining its people's demand for goods is at a disadvantage, in the international markets, compared with a country which, to employ its people, penalizes the foreigner. Methods which tend to keep up the world's aggregate demand for commodities succumb, in international competition, to methods which curtail the world's demand. And, because of unavoidable retaliations, even the country which applies the more "egoistic" type of method does not keep its advantage for any appreciable time. Unless, of course, a politically strong country forces its wares on the weaker ones: not an appropriate policy for a lasting peace.

The difficulty would not arise if, in times of depression and unused resources, policies of expansion were not applied in isolation, with one country lagging behind another, the "conservative" leaders of one country penalizing the country whose leaders have more imagination. A concerted deflationary policy in times of boom (that is, when the expansion of activities is not justified by any reasonable estimate of a prospective growth of consumption)—this would sound very schematic but for the evidence provided by the experience of some twenty countries in the last twenty years, and for the detailed analytical elaboration produced by economists whose names are known and whose writings are accessible.

One particular type, although not the only one, of *pari passu* policy against booms and depressions is "international public works"— a joint development of the so-called backward countries, or a joint repairing of war damage inflicted on (and by) the advanced countries. I am not concerned here with the sentimental or educational, peace-promoting values of such projects. This value may be very great, although I am not inclined to share the enthusiasm of those who are overjoyed by the mere existence of International Youth Hostels, the International Postal Union or even international cartels. The economically relevant point about international public works is simply their ability to stimulate exports of various countries simultaneously, without limping or racing, and therefore without dangerous discrepancies between national price levels. The same effect could be produced, of course, by an agreement to have a simultaneous policy of domestic public works, their expansion or curtailment. No perfect synchronization is necessary (even a modest "consultation of general staffs" is better than Leopold III).

Exchange Rates

The policies and causations just described, the alternatives of *sauve qui peut* and collective security in the world's fight against unemployment, have their monetary aspect. This is often described with the help of the somewhat vague term of "external disequilibrium" or "disturbed balance of payments." The elimination of the ups and downs of business activity is labeled "maintenance of internal equilibrium," and it is stated that efforts in this direction—domestic public works, for example—may endanger external equilibrium. To find measures that will safeguard both equilibria simultaneously is the real problem of economic policy in a world where idle resources are possible.

This terminology adds little to what has been said. In its most sensible usage the term "disturbed balance of payments" means a situation in which the prices in one country, in relation to prices in the others, are too high to make its sales sufficient to pay for its purchases. Unless that country is able to borrow indefinitely, either its prices will have to fall or its currency will be devalued. In the first decade after the World War the choice between these alternatives was often made on grounds which, apart from considerations of vested interest, were sentimental rather than rational, and with deplorable results (England, Norway, Denmark, Italy). In the thirties the delay in the devaluation of the French franc and the Dutch guilder—the franc and guilder lagged obstinately behind the pound sterling and the dollar, which had run away for reasons of their own—was equally irrational and lamentable. It is almost generally agreed that the strenuous efforts at deflation to avoid devaluation were futile.

There is no axiomatic reason why prices should be flexible and exchange rates stable, and not the other way around. Yet, men being what they are, there are no doubt good empirical reasons why strong mark-ups, or mark-downs, of the exchange rates should not become a daily occurrence, should not be (as they were through long periods during the years between the wars) the object of speculation. If a change in the value of a currency, in terms of other currencies, is regarded by the public as a warning of a still further change, then speculation, in the form of "flights of short-term capital" from one currency into another, and conducted both by professionals and by frightened money-holders, makes impossible any durable price relations between internationally exchanged goods. Speculation in currency, since it embraces all owners of property and is reflected in all commodities, is more dangerous than specialized and professionalized speculation in goods.

Economists who have formulated the desirability of "internal equilibrium combined with external equilibrium" have therefore more or less agreed, in recent years, on these principles: when so required by fundamental changes in a nation's production conditions, or in the foreign demand for its product, the exchange rates (say, their upper and lower limits) should at rare intervals be subjected to revisions, internationally agreed upon; speculation in currencies must, however, be offset, best—and cheapest—of all by an international equalization fund; in no case should devaluation be undertaken as a means of fighting unemployment in a country unless that country simultaneously expands its peoples' demand, for example by public works or relief.

World Currency and Gold

This seems to leave unanswered two more monetary questions frequently discussed at present: the future of gold, and "world currency." Because Europe's continent has lost its gold to America, and its sovereignties, for the time being, to Hitler Germany, the two questions are natural. But they exaggerate symbols at the expense of substance.

There is no difference in substance between a single currency for a group of states, and a set of currencies connected by rigid exchange rates. The gold standard, in particular, by keeping exchange rates within narrow limits, operated practically as a single world currency. If exchange rates were not rigid, however, but were revised by international agreement from time to time (a procedure, which, if the gold standard is preserved, means revision of the gold content of the various currencies), then signatories of the agreement which suffered from physical disadvantages (caused, for example, by technical changes, by the exhaustion of mines or soil or the like, or by changes in tastes) would receive permission to devalue their currencies. Thus they would adapt themselves to unfavorable technical or natural or market changes not by reducing their employment figures but by reducing their standard of living—unless, of course, they preferred emigration.

In a single country the policy toward a "depressed area" is usually some kind of subsidy, mostly tapering off into frank encouragement of emigration to other areas of the country. Or no subsidy is granted, and the production or market disadvantages which have afflicted the area find their expression in depressed real incomes, making emigration a brutal necessity. This is not applicable in international intercourse, or not to the same extent. One should remember—although one's imagination has been blunted by the Hitlerian mass transplantations—that voluntary mass migrations between nations, even if the former absolute sovereignty were not retained, would be more painful than movements within the same cultural unit, say between the Dust Bowl and California. For similar reasons subsidy aid by one nation (or former nation) to another will remain, for a long time no doubt, a much more difficult political matter than analogous intersectional problems within an old political unit like this country. Revision of exchange rates from time to time is probably an easier instrument to handle. National currencies, subject to international revisions when necessary, yet protected from speculative fluctuations, would mean in effect an adaptation of real incomes to changing conditions, achieved without the dangerous instrument of cutting money wages. Such flexibility of real income rates would be welcome. Of course, it is no less a political matter than subsidies would be, but, unlike subsidies, it does not necessarily involve benefits to one partner at the expense of another.

Single currency may be an easy by-product of a world unification. It is not a very urgent goal in itself.

Similarly, the gold problem, too, must be divested of its symbolic attire. Whether the international gold standard—gold as a means of settling international, not necessarily also domestic, account balances—will be successfully opposed, is a political problem. The United States may or may not prove stronger than Germany, and South African interests may or may not continue to rely on the support of the British fleet. But, apart from these particular interests and forces,[5] the problem has its general economic aspect, the aspect of economic cost and convenience to all the participants. By abolishing gold as a means of international exchange, mankind would release the labor of a few hundred thousand workers, black and white; well and good . . . provided they soon found employment elsewhere. On the debit side, after having written off useless gold stocks plus mining equipment, we should have to charge the inconvenience and cost of settling international accounts by shipping some other stuff, dirtier and bulkier than gold; the *Deutsche Bergwerkszeitung* has already suggested coal. Or, still worse, accounts would be settled by shipping anything the militarily stronger party in the barter wanted to get rid of at a particular

[5] See Fritz Lehmann, "The Gold Problem" in *Social Research*, vol. 7 (May 1940) pp. 125-50.

time, anything from aspirin to copies of Roehm's memoirs. Suddenly turned Proudhonist, the mouthpiece of German heavy industry, mentioned a moment ago, declared that the alternative to a gold standard would be a standard "based on labor values." Unless they intended, as well they may, to ship slave labor from one central bank to another, the "labor value" would be incorporated in some commodity—gold, coal, wheat—or in many commodities; but the latter alternative, an enlarged edition of defunct bimetallism, would be particularly inconvenient.[6]

To be sure, the extension of American credits in the amount that would be necessary to bring gold back to an even distribution would be a political act (although a great part of the gold—the flight money—would find its way by itself, and although not all the billions would really be needed if economical gold-reserve requirements were worked out). Occasional revisions of the gold content of various currencies would also be political acts, no less than German barter contracts are. Objectively determined prices, such as are formed on free markets where many individuals meet, cannot be obtained in a comity of a few nations, or at the desk where the bartering Herr Clodius meets delegates of Ruritania or Araguay. Yet, there is a difference between a cooperation based on general rules and the fiat of the strongest.

Other Aspects

For the international handling of booms, depressions and money, no comprehensive "world economic conferences" are really needed. If three or four economically leading countries make the necessary agreements and keep them, if, in addition, they set up institutions (such as the International Equalization Fund and, less

[6] The *Petit Dauphinois*, mouthpiece of the Pétain government in Vichy, supplied poetic comments to that government's prosaic and reasonable decision to tie the franc to the dollar instead of to the pound: "The true value of the franc will be determined by the nation's working capacity . . . it will represent the real economic wealth of our country. It will be supported by labor and the velocity of its circulation, as is the reichsmark" (New York *Times*, July 14, 1940). Which goes to show, once again, that silliness is not a privilege limited to democracies.

important, an International Public Works Board or a Bank for International Credits), and if they give the other countries the right to join, half of the task is done, even if the other countries do not join. How differently would the economics of Brüning's Germany (1930-32) have developed if Germany could have embarked on a public works program without fearing for her balance of payments! That would have been the case if the United States or England had shown signs of a similar policy. Instead, the European balances of payment collapsed because of the withdrawal of American credits, and England devalued the pound. This induced Brüning's deflation, although his decrees to control foreign exchange made it unnecessary. Those decrees prepared the ground for the Nazi policy of public works, with the currency protected not only by the control of devisen but also by supervision of wages and prices. Neither these nor autarchy would have been necessary for a successful tackling of the depression if German public works had been paralleled, from the outset, by a similar policy in one or two other countries.

It is not contended, I repeat, that if international business cycle policy were taken in hand, the other problems—trade restrictions (through monopolies or protectionism) and development of resources—would disappear. But trade restrictions would become much less formidable. Tariffs and quotas and currency devaluation would not be resorted to as a means of fighting unemployment. The problem of international trade would therefore be restored to the position it had before 1929, to its classical position. Apart from possible retaliations, tariffs (modest things compared with today) would find some justification as protectors of infant industries; and a further justification, a more selfish one and applicable only to countries with a very large and diversified economy (like the United States), might also be advanced—the tariff's ability to benefit the protected country by "turning the terms of trade" in its favor. Such considerations would, in the worst case, prop up some moderate protection, nothing to compare with the brutal restrictions born out of the fear of unemployment and responsible for more unemployment and unrest. Even if unnecessary or harmful economically, moderate tariffs need not be a danger to peace. I would not advocate them, but I would not fear them. Monopolies would still be worth attacking or controlling or buying up by governments. But in the absence of super-tariffs they are often less formidable.

The development and upkeep of equipment—the "third postulate"—would be largely of a non-self-liquidating type (health, sanitation, housing, roads in the backward countries), and suitable, therefore, for public works. It would be possible to speed up or throttle them according to the requirement of the business cycle policy. This presupposes long-range planning of such works.

These are but outlines, and they need filling in. Especially are they incomplete unless structural differences between industrial and agricultural, specialized and diversified economies, are studied; maintaining the purchasing power of industrial countries solves a great part but not all of the agricultural difficulties. Nor has the problem of emigration of cheap labor, and the competition of its products in the international markets, been touched upon in this article. The business cycle and monetary problems here discussed are more difficult, however, and much less understood than the others, and of the utmost importance.

But the purpose of this article has been fulfilled if it has reminded its readers, amidst the present reverses and disappointments, that the economic thought and practice of recent years have developed, however hesitantly and imperfectly, instruments of a peaceful economic order. It is still possible to devote some time to the task of discovering whether and in what way free men organized in democratic communities can, in spite of everything, cooperate to assure material welfare.

Kant published "On Eternal Peace" in 1795, and lived another ten years, long enough to see Napoleon's unending wars, but not Napoleon's end. The utopian!