MONEY AND FREEDOM

I. DISTRIBUTION

The problem of distributing in quality and quantity the products of human industry, constitutes the central problem of Economics. Some people may be inclined to think that the first and foremost object is to produce goods, but the bottlenecks of distribution and the social problems arising from it condition production in such a manner, that the problem of distribution seems to me paramount today. And this problem is dominated by the monetary mechanism.

To be sure, money is not the only conceivable instrument for distribution purposes. Common property of the products of labour could be theoretically conceived as a possible solution of our problem. If these products were all stored in communal warehouses, every citizen could withdraw freely what he considered necessary to satisfy his needs. Every body would fix at his fancy the extent and quality of his needs. This system is not only compatible with individual liberty, but it leaves the broadest margin to every individual to determine the nature and size of his consumption as well as of his contribution to the collective task. In a community consisting of citizens of a high moral and altruistic nature, this system would be ideal and would reduce distribution costs to a minimum. If we consider on the contrary an egoistical, greedy and lazy society, i.e., a kind of society from which ours is not very different, we need not make great efforts in order to prove that such a system would be doomed to complete and immediate failure.

In such a society, rationing of all the commodities would have to be imposed, and compulsory working hours decreed. But in this way we would pass from complete freedom to its complete absence. We should not be our own masters to determine what would be our contribution to the general social task; we should probably not be able even to choose our specific job and much less to fix its extent; we should not be allowed to shape the structure of our consumption—the nature of our foods, the style of our dresses, etc.—our consumption which is the true reward of our labour. We should remain totally subject to a superior power, that

could freely regulate our time, our efforts, our rations. The inevitable consequence of such a state of things would be a reduced eagerness to work. In a community of men whose altruism is small, any reward not directly related to the magnitude and value of the social contribution of each one, runs the risk to prove ineffective, because of the slackening of the vigorous incentives of personal interest.

Money affords an invaluable solution of this problem. It is necessary indeed to limit the share of the total product of each individual or family according to their contributions, but without curtailing his freedom of choice. This will be the best way of satisfying the wishes of every consumer within the limits of his income. The solution offered by *money* consists in fixing the value of every product in standard units of value, and in establishing in the same units the participation of each individual or group in the whole output. The existence of a market provides the instrument for fixing the values of the finished products as well as those of the individual contributions to the collective task. This market provides at the same time the factors of production with the means of acquiring what best satisfies their needs and wishes.

This conception of money as a means for distribution makes us easily understand why money, which in principle ought to be endowed with an intrinsic value, can be partially or totally replaced by simple numerical symbols. In reality money constitutes a system of accounting that employs *exchange tickets* instead of book-crediting and debiting, though sometimes it adopts this latter form, for instance, in the case of bank deposits and clearing institutions.

This short outline of possible systems of distribution shows the following and important fact: freedom, morality and efficiency, i.e., Politics, Ethics and Economics, are closely related to each other.

II. THE PROBLEM OF MARKET BALANCE

In order that money may fulfill its distributive function, the creation of purchasing power must run parallel to the creation of goods. Total purchasing power must be equal to the aggregate value of total output, so that the purchasing power which has been distributed among the factors of production will enable them to purchase in some specific form that part of total output which they have virtually received with their income, their income being the price of that portion of output they have contrib-

uted to produce and have alienated in exchange of money. The problem consists in equalling the value of production with the amount of purchasing power arising from it, for if the amount of purchasing power available were greater than the value of aggregate production, some of the holders of purchasing power could not buy goods. In the opposite case goods would be unsaleable, as it occurs in the crises of depression.

Experience has shown only too clearly that such unbalanced market situations exist. It is of the greatest theoretical and practical interest to establish whether such disturbances are due to an inherent defect of the system or to outside circumstances. On the solution of this question depends whether we shall have to declare the money system of distribution to be inadequate and thus to be discarded or at least supplemented by corrective action interfering with individual freedom (interventions, rationing, planning, etc.), or whether it is a method which, brought to perfection through adequate means, would allow the achievement of distribution without restricting the freedom it theoretically offers.

If we fix our attention on the monetary mechanism of production, we see that in principle the value of output and the amount of incomes paid for its obtainment are equal, since every enterprise, in paying its factors of production, considers these payments as cost of production; and thus goods go to the market at a cost which equals the amount of all the remunerations paid in the course of their manufacture. The producers then sell them, and it may happen that they get back that cost exactly, that they make a profit or that they suffer a loss. In the first case no doubt the purchasing power placed on the market by production is equivalent to the value of the output. Some people suppose that a deficit of purchasing power will arise in the second case, for no purchasing power on the market corresponds to the profit gained. This opinion is erroneous; though benefits are created in the very instant of the sale, and constitute no part of cost, they do constitute a part of the final value of the commodity; they are simultaneously summed up to this value and to the purchasing power on the market. If the seller is an autonomous enterprise, it will transfer the net profit as dividends to its shareholders at the end of the financial year. One will say that this new income was withdrawn from the purchasing power previously paid out to the purchasers, which contained only the cost of the commodity. The reality is that constantly benefits are being obtained by the sale of commodities; when a raw material or a semi-finished product is sold, the income realized by the

seller equals the increment of cost for the buyer. Carrying things to an extreme, we can imagine that all producers are free artisans working for their own account; the total earnings of all and every one of them would depend on the market, but that would not prevent the aggregate value of output from corresponding exactly to the aggregate income of the whole community. This is perfectly obvious. Even if the seller, instead of obtaining a profit, experiences a loss, this loss is imposed by the necessity of the maintenance of equality between both terms: purchasing power and value of output; the latter having resulted lower than the purchasing power being distributed by its production, the loss restablishes the exact balance.

There is the special case of services: medical assistance, teaching, public services, etc. This case can be dealt with in two different ways: either they can be regarded as current commodities, which add their prices at the same time to the value of total production and to the amount of income, or as a transfer to those who render this services, by their users, of a part of their right to purchase current commodities. In a way, all values turn into services, since production is carried out through the services of workers, technicians, entrepreneurs and capitalists. Services are then of two different kinds: of production and of consumption, the difference consisting only in the former entering in the cost and value of the production, but not so the latter. If we exclude consumption services from output, a service of the same nature would be considered as productive when it is payed by an industrial enterprise that includes it in the cost of production, for instance, the services of a doctor for the assistance of its employees, and would be considered as consumptive when payed by the employees themselves.

But in both cases the balance between the two opposed terms of the market is maintained if we reckon them duly.

Based on this reasons, a long time ago I formulated the following three propositions:

1. *Every income comes from production.*

2. *Every change in the value of saleable things is turned into an income*, since somebody must receive as an income the increase (or suffer the decrease) of value.

3. *The aggregate income of the whole community is necessarily equal to the total value of output*, this proposition being a corollary of the first two, that can be mathematically expressed as follows:

R (aggregate income of consumers) = P (aggregate value of output).

III. DEMAND AND SUPPLY, BOTH POTENTIAL AND ACTUAL

The foregoing conclusions tell us only that production endows the market with a potential demand (purchasing power) that is equivalent to the total value reached by output (Potential supply). But the bargain is not established between all available commodities and all purchasing power that can be disposed of, but between the purchasing power and the goods flowing into the market and being actually interchanged. Potential demand of the period is composed by the resources the demanders have at the beginning of the period A, plus the incomes they receive during the period (P, equal to aggregate income, R); both items form obviously the whole sum the demanders *can* destinate to demand (Potential demand $= P + A$).

Now, since resources in possession of demanders of final goods must be either exchanged or withheld, potential demand is also equal to actual demand (resources effectively employed by final demanders, D), plus the reserves they withheld at the end of the period A' (Potential demand $= S + A'$).

Therefore $$P + A = D + A'$$

or $$P = D + (A' - A)$$

and representing, for simplification, $(A' - A)$ by ΔA, we get finally

$$P = D + \Delta A$$

to which we can give the form

$$D = P - \Delta A$$

I based myself on this inference in order to formulate the following propositions:

1′ *Demand is a function of income.*

2′ *Every actual demand causes the extinction of an equivalent amount of purchasing power*, for in so far income has been employed *in the purchase of a final good, it is no longer available for another one.*

3′ *Every income which is not employed for a demand of final goods, either of consumption or of capital, means a corresponding amount of commodities remaining unsold.*

The last proposition, a corollary of the first two, can be formulated more precisely: *If prices remain unchanged, both the growth of unsold commodities and of the idle purchasing power are equal in value.* It is easy to prove it. As to commodities, the reasoning is parallel to the one we have previously made as to the purchasing power created by their production. The potential supply of commodities is equal to the production of the period plus the stocks existing at the beginning of it. The actual supply during the period plus the stocks remaining at its end would obviously be equivalent to the same potential supply. If we represent actual supply by O, and the existing stocks at the beginning and end of the period respectively by E and E'; and we make $(E' - E)$ equal to ΔE (increase of stocks during the period), we get

$$P + E = O + E'; P = O + (E' - E) = O + \Delta E \text{ and } O = P - \Delta E$$

If we suppose that the market is in a state of equilibrium, characterized by the stability of prices and therefore by the equivalence between supply and demand at the existing prices, from $D = O$ we obtain

$$P - \Delta A = P - \Delta E. \text{ i.e., } \Delta A = \Delta E$$

If both ΔA and ΔE are equal to nil (purchasing power and stocks constant), equilibrium is stable, without any tendency to change. If both are equal and positive or negative, equilibrium is unstable, because if stocks grow exceedingly, it is probable that there will arise the necessity of liquidating them, which will break equilibrium in the sense of lowering the prices. The contrary happens if stocks diminish abnormally, which is a sign of a vigorous demand.

$$\text{When } D > O, \text{ we have } P - \Delta A > P - \Delta E, \text{ then } \Delta A < \Delta E$$

The contrary occurs when prices go down

$$D < O, \text{ thus } P - \Delta A < P - \Delta E \text{ and } \Delta A > \Delta E.$$

The stocks in the hands of the producers consist of raw materials, products in the process of production and the finished goods stored in warehouses, all of them valued at their effective cost or the disbursement they represent for their owners, i.e. at the amount of income they have engendered.

IV. SAVINGS AND MONETARY BALANCES

The quantity A, that is the monetary reserves of the factors of production, consists of two parts: (a) the amount of money they have succeeded in saving once they have carried out their expenditures and which they have not yet invested (savers' money balances), and (b) the remainder of their incomes, which they hold in order to meet current needs. These sums form the consumers' money balances. For making up the full amount of circulating money, we must add (c) the money which is kept in the hands of enterprises, either individual or collective, for carrying on current business. M being the total circulating money, we have

$$M = a + b + c = A + c$$

which is equally true for increments occurred

$$A = M - c \quad \text{and also} \quad \Delta A = \Delta (M - c)$$

whence

$$D = P - \Delta A = P - \Delta (M - c)$$

and if we suppose ΔM = zero (quantity of money unaltered), we get:

$$D = P - \Delta (0 - c) = P + \Delta c$$

Thus, actual demand equals value of output plus the increments of producers' money balances.

A grows normally at the expense of c through the payment of incomes, and c increases at the expense of A through the proceeds of sales. c increases when sales exceed cost expenditures; A increases in the opposite case.

Wages, salaries, taxes, interest, rents, are incomes paid by the enterprises to the factors of production. In addition, they pay dividends to their shareholders. If we add to these amounts the profits retained for capital depreciation and for reserve funds (which form a part of the income of capital owners, that is reinvested in the enterprise), we get the global value of production, completely distributed as income. Since profits cannot be known until the balance sheet is drawn at the end of the financial year, dividends, depreciation costs and reserve funds additions can only be fixed and paid during the following financial year. In fact, enterprises pay to their shareholders, in the course of current year as dividends, the net profits of the previous year, except the part which they allocate to reserve and depreciation funds and which is consolidated

as a virtual addition to capital. When profits increase, after the profits of the previous financial year have been paid out, a growing sum remains which constitutes a transitory addition to circulating capital during the rest of the year; and viceversa for smaller profits.

In the same way as incomes are divided between consumption expenditure and savings, production splits up into consumption goods and capital goods. Expenditure *ex-definitione* is vested in the purchase of the former, while savings are applied to the purchase of the latter. The purchase of capital goods is sometimes carried up by the savers themselves, but usually they cede their money to the producers in order to have it invested in real capital. This is another way in which money passes from *A* to *c*, and when we want to calculate the total amount of sales by the difference existing between the value of production and the actual increase of reserves of the purchasers, both consumers and savers, it is necessary to take account of this second channel through which money flows from the savers to the producers. If producers borrow funds, the potential demand will not equal the actual demand plus the remaining available funds in the hands of the buyers. We must also add the amounts that producers have borrowed, and subtract the repayments the latter have made to the savers or the banks.

Producers employ the funds they receive in two different ways: they invest them in fixed- or in circulating capital. The investment in fixed capital consists of purchases of goods and materials and payments made for installation expenses. The part employed in such purchases restores, like direct purchases made by consumers and savers, the monetary fund of the producers of the purchased goods, who thanks to this development are able to go on producing and paying new productive incomes. The payments made for installation services mean liquid savings that become incomes, i.e., purchasing power fit to be employed in consumption or saved again. On the whole, the effect of a new investment in fixed capital is the same as a purchase of capital goods by the entire amount of the installed plant, and we must consider it as an addition to the actual demand.

It is different when money is invested in circulating capital. Here fresh incomes are created too, but the purchasing power flowing to consumers has its counterpart in the commodities which within a term depending on the production period, would come out for sale and which in the meantime remain as stocks in the hands of producers, contrariwise

that in the case of a new installation which remains permanently in the possession of the enterprise and is not reckoned in *E*.

In short; the fact that funds have been lent or ceded to business has made *A* decrease and *c* increase, without this development implying an increase of *D*, except in that amount in which the ceded funds have been employed in the installation of fixed capital. In order to rectify the error that the above named fact would introduce into the calculation of sales either by the difference $P - \Delta A$ or by the sum $P + \Delta c$, we shall have to add to both expressions a negative term, representing the increase in circulating capital, or better, all transfers of funds to production minus the installed capital by borrowers during the same period. If we represent this figure by ΔH, actual demand is expressed as follows

$$D = P - \Delta A - \Delta H = P + \Delta c - \Delta H$$

Now, the lending of funds does not always come out of savings. The Public Treasuries, Banks of Issue and comerical banks, all create money. Thus, new purchasing power flows into the market, which unlike with the incomes from production has not counterpart in commodities. This money passes either to the hands of consumers or of producers. If we suppose that all the new money passes into the purchasing fund A, ΔA will be abnormally increased and, in reckoning *D* by the difference $P - \Delta (A + H)$, we shall obtain a value for actual demand inferior to the true value by the amount of the new created money; in order to avoid this mistake, we must add ΔM. If one part of the created money passes into fund *c*, the addition of the positive term ΔM would give us an excess of demand equivalent to the portion of the new money lent to producers, but if we include in the negative term ΔH all the borrowings of industry, either from private persons or from banks, the latter partially made by creation of money, the error is automatically rectified by the increase undergone by ΔH. The difficulty of discriminating between borrowings from different sources is at the same time avoided.

The complete expression that stands for actual demand will be

$D = P - \Delta (A + H) + \Delta M = P - \Delta (M - c) - \Delta H + \Delta M = P + \Delta c - \Delta H$. Therefore, demand does not balance production unless $\Delta M = \Delta (A + H)$ or what amounts to the same thing $\Delta c = \Delta H$, i.e., when the increase of money is exactly balanced by the increase of the purchasers' fund *A*, plus the borrowings of businesses, so that the increment of producers' fund equals their borrowings.

The difference between actual supply and actual demand

$$D - O = P - \Delta c - \Delta H - (P - \Delta E) = \Delta (E + c) - \Delta H.$$

$\Delta (E + c)$ is the total increase in circulating capital (1). In equilibrium, it must balance total borrowings of producers. The difference can only proceed from profits made by the enterprises in the course of the period under consideration, in excess over those realized in the previous one and distributed to shareholders in the present or consolidated in additions to reserve funds. The disequilibrium of the market is consubstantial with the change in aggregate profit experienced by the enterprises compared with that of the previous financial year.

V. THE MARKET OF INCOME-YIELDING ASSETS

Savings are not only used for the purchase of durable commodities of current output, but for the purchase of capitals already existing, such as real estate, government bonds, debentures and shares of companies, sometimes the physical assets themselves are transferred by sale. The savings are also used for new mortgages or to trade in those already existing; they intervene in acts of purchase and sale of commercial papers, in the realization of lendings and in different financial operations which constitute a lucrative investment of them. The markets in which these transactions take place are the capital and money markets, which we may distinguish from the commodity markets.

The goods purchased in the capital markets are estimated in relation to the yield they produce and not to their value or cost. When goods of a physical nature are concerned, it is possible that the price which is supposed to be obtainable by their sale in a future day, may influence their quotation, but in general only the actual or prospective yield counts in the eyes of the purchasers.

There is an essential difference between the investment of savings in real capital and their investment in income-yielding assets. When liquid savings are invested into new capital, they are directly or indirectly transformed, as we have already seen, into new incomes paid to those who cooperate in the production of the real capital. These incomes are habitually destined to satisfy the needs of those receiving them. It is not the

(1) I include in circulating capital the money in the hands of enterprises.

same thing when man buys a nominal value or a physical good already in use, since the person who receives the money is another capitalist realizing his physical capital. The money thus obtained does not represent for him an income destined to his consumption, but a capital that he has now in liquid form (1). He can certainly spend it, but in general he intends to keep it and throw it into a new investment, perhaps similar to the former, in such a manner, that the money can be kept in circulation during a long time before it may be converted into new incomes or employed in purchases of commodities of current output, i.e., before it originates actual demand.

This aspect of investment endows money with a special function, different from its original purpose of distributing current output, namely the exchange of accumulated wealth. There is one kind of price which depends on this interest-bearing assets market; it is the price of money or interest of capital, which some people have named the price of time.

When the quantity of the available funds of capitalists or of liquid savings are scarce on the capital market, the price of fixed-interest bearing securities goes down and, consequently, there is a rise in the yield or the interest rate. When on the contrary the volume of available funds increases, quotations rise and the interest rate goes down. This latter phenomenon favours an intense industrial investment, but since the funds available for investment must be obtained at the expense of floating capital on the financial market, these become soon scarce, quotations fall and the rate of interest goes up, a development hampering further investments. In order to avoid this obstacle, we ought to have plenty of liquid funds on the capital market, which must be obtained by abundant saving being neither consumed nor invested in new real capital; this implies a lower demand of commodities and of labour to work them. The prices of commodities decline, industrial profits fall and it may happen that the marginal rate of profit in industry falls under the interest rate of the market. This is the case in persistent depressions.

I believe that the business cycle is better explained by the consequences of this interplay between this two markets—the commodity and the capital market—than by any of the multiple causes to which it has been attributed hitherto.

(1) By liquid capital is intended here money savings that have not yet been invested in real capital, either fixed or working capital.

Let us discuss in this brief sketch only the fundamental causes that engender the cyclical waves and their essential effects.

It is a singular fact that the long periods of peace, which logically should breed prosperity, are periods of depression, of superabundance of commodities, of superproduction, of unemployment. On the contrary, wartime periods, loaded with fear and war preparation are, economically considered, periods of business prosperity, of full employment, though in the remaining aspects they may be mournful and sinister. Nevertheless, the phenomenon as such cannot surprise us if we consider the established premises. Crises must necessarily arise from prosperity, paradoxical as it may seem, because during peace time, production is abundant and tends to rise. Abundance would not be an obstacle to business prosperity, since the greater the output the greater the volume of purchasing power it engenders; the obstacle is insufficiency of demand, and this insufficiency arises from purchasing power being deflected from the purchase of current output.

In times of high properity, incomes are plentiful, needs are widely covered and a considerable part of the income is easily saved. Even this circumstance would be no hindrance for the continuance of prosperity, provided that savings were totally invested in new capitals. But the normal course of events is that an important part of saving goes to increase the liquid capital floating on the financial market. This process is favorable, by lowering rates of interest, to foster investment, but simultaneously it slackens demand in the commodity market, and stocks grow abnormally. These excessive stocks can be easily financed, for funds are plentiful, rates of discount low and credit is given easily, since prosperity has encouraged confidence; banks create money in abundance. We reach into what we have previously defined as an unstable equilibrium.

Quotations are high on the financial market and many savers who prefer secure investments in fixed interest bearing securities, wait before investing, in the hope of a better opportunity to buy. This tendency of savers, which Keynes has named "liquidity preference", contributes strongly to increase the floating funds on the market at the expense of actual demand of commodities.

In the other hand, during periods of prosperity and abundant saving, when enterprises increase also their reserve and depreciation fund, it is

unavoidable that the needs of circulating capital be met by savings and reserves made from profits, i. e., with a fraction of the incomes proceeding from the value of the precedent production, or that credits used previously to finance business transactions be repayed at the expense of reserves of new profits. This takes the market even more out of equilibrium, for when savings are formed, demand declines, and an equivalent value of commodities remain unsold; if the savings are employed afterwards to finance circulating capital, new incomes are born and an equivalent product is created; we have two commodities to buy and only one purchasing power to purchase them, whose amount is half the aggregate value of both.

Finally, the price-rises of the boom period have restricted the real income of the majority of people, whose consumption and savings diminish, while the nominal and real incomes of those who dispose already of greater resources are further enlarged. As these people save more easily and are more inclined to have their savings uninvested, idle funds grow even bigger. All these powerful causes contribute to unbalance supply and demand; stocks and idle funds grow simultaneously, and the equilibrium becomes more and more unstable. The abnormal increase of stocks must be eventually liquidated, and the smallest cause can precipitate liquidation. Even without any fortuitous event, the inner logic of the facts will soon lead to the unavoidable breakdown of the labile equilibrium.

Then prices are forced down, thus reducing the industrial profit-margins. An extensive zone of marginal enterprises suffer losses. Big sectors of industry become paralized or go into bankruptcy. National income falls greatly and, though prices go down, total real demand is still more restricted. New price-falls occur.

The reduction of the industrial profit margins takes away any incentive to invest in real capital. Savings get paralized or flow to the market of interest-bearing assets, where they can inflate quotations, but however high these are, industrial investment is not encouraged, because the rate of profits is lower; marginal profit can become negative, while rates of yield of bonds, estate and other assets cannot be negative nor even nil, no matter how high the latter may be quoted. Again industrial risks are exaggerated under the effect of recent failures.

From all this we can infer that there is not a spontaneous cure for depression. It tends to grow indefinitely, because the interruptions of production cause also decrease of income and consequently of demand. De-

pressions deepen by themselves; as the stone that falls, accelerates its speed by itself. The situation can only be amended by two causes of exogeneous character: (a) Heavy expenditure, imposed by necessities such as war or preparation for war or caused by general distress, or expenditure carried out deliberatly in order to fight unemployment, i.e., expenditures regardless of yield. These expenditures make social income rise, increase demand by filling the pockets of consumers with money, raise prices, restablish the margins of profit, encourage investments, thus creating the ascendent spiral, in analogous form of that the descendent spiral was engendered. This is what keynesians, who love new names, have called the "multiplier"; they could speak with equal reason of a divisor for depression. (b) Innovations and discoveries of new natural resources that can be exploited with a profit because they are widely above the current profit-margin and permit to pay for capitals whatsoever rate of interest. Often innovations give birth to more economical methods of production which at existing low prices can make production profitable and, by the investments they purport, initiate the growing of demand and of employment, generate the increase of income and create the initial germ of a new prosperity, which the causes above outlined tends to suffocate again.

VII. WHY LIBERAL ECONOMICS FAILED

The fact that depression possesses an automatical mechanism which converts it into a pertinacious phenomenon, whereas prosperity is a sporadic and contigent event, has a consequence of the greatest importance. Production develops under restrictive conditions; it is not limited by the means of production, but by the market. With a tendency to depression that reduces profit-margins and forces producers to cut down expenditures of production, enterprises try to pay the elements of cost at the lowest possible price; the principal item of cost is labour, whose market is upset by unemployment, that obliges workers to accept employment at any price permitting subsistence. The reduction of costs tends to restablish profits, provided that prices do not decline, but as production cannot be maintened if market demand is not sufficient, and demand depends upon incomes, the more income contracts, the smaller is the monetary volume of demand, and in order to conform to it, prices or output must fall. Lowering prices aims at reducing again profit margins, so that what finally imposes itself is reduction of output.

If incomes of most people are limited to the bare needs of life, though the means of producing may be sufficient to bring about a higher standard of life, production is brought down to a lower standard, to what consumers can demand at remunerative prices for producers. It would be logical that the improvements for workers—higher real wages, lower working hours—and for other factors of production come out from technical progress through a spontaneous process; that is not the reality; it must be operated through the defensive action of workers themselves, by means of coalitions and syndicates, against the tendency of institutional economics to reduce their standards of life. In this manner, what ought to be a peaceful evolution of economical progress is turned into a social and political struggle. And though the evil resulting of this disorder hits everybody, those who do not rely exclusively on their labour, but on the revenue of their capitals, are less directly exposed to its pernicious effects. Thus, profound differences of wealth appear which give to that struggle the shape of a class struggle, of a civil war undermining the foundations of national economy and the moral unity of society.

This is the cause that has made the regime of democracy and liberty, so attractive in theory, to fail in practice. It is discredited not only among those who monopolizing power are tempted to exert it without hindrance, but it has lost credit in the eyes of the very masses of the people, notwithstanding that, rationally thinking, people should be more interested in maintaining the garanties against the abuse of power. This discredit has grown out of the experience they have made that political rights are useless to reach social justice and welfare. Governments have always had to intervene in order to attenuate, more or less successfully, the tendencies of the economic regime. But at present there prevails a general trend to intensify intervention, that leads, whether the promoters like it or not, to results that forcibly annihilate individual freedom under the despotic power of the state, even when the evolution takes place under the auspices of democracy. Many times the alleged pretext for intervention has been that the smallness of available commodities requires the tutelage of the state in order that every body can get his fair share, disregarding the fact that this extreme distress, though having an institutional source, is aggravated by the interventions which deprive the individual initiative of its natural incentives. When those interventions are limited to maintaining wages, the organized workers succeed in avoiding their lowering or in promoting their rise, but this is obtained at the price of making un-

employment still more persistent through curtailing the elasticity of costs or at the cost of depreciating money, that renders delusive the rise of wages. If such interventions go deeper and affect the very mechanism of production by introducing Government control, nationalizations, socializations and planning, the ressorts of personal interest desintegrate, production becomes inoperative under burocratic and administrative regulations and, instead of socializing wealth, man socialize distress.

The statement that labour is a productive element which must suffer of depreciation under free conditions of market is accepted without criticism. Is this a reasonable point of view?

Labour is not only a valuable commodity, but the most valuable of all commodities, since it allows the production of every other. Work materialized in one or other concrete commodity may suffer depreciation if that commodity is too abundant in relation to its consumption or if it has become oldfashioned or out of the present taste of the public. Nothing of this kind can happen to labour, since as far as the market asks for something, work may be utilized, with greater or smaller efficiency, to satisfy the wishes revealed by people; work capacity contains potentially anything that may be produced. In this respect it resembles money, which is also an undifferentiated form of value which, while it is accepted as such, allows to purchase any commodity. But this faculty is purely conventional when attached to money and it is due to the fact that, since it represents all commodities by general agreement of the community, the common desire for it stimulates the forces of labour to produce whatever commodities or services are demanded. Work is the real *deus ex machina* of production, no money, as false illusions make apparent under present conditions.

The abusive power that money has acquired is inseparable from the phenomenon of depreciation of labour and of the causes which lead to it. It is work that moves the economic machinery and makes it function. The depreciation of labour is the reflex of the depreciation of its fruits. If we succeed in emancipating production from the depressive effects we have studied, labour will reach its natural value, which is the value of the commodities it is able to create. And it will reach it not in consequence of any coercitive action either of workers or of Government. If workers are competing for employment, the competition of employers for finding apt and efficient workers would be no less stimulating for attributing to work its full value in an unrestricted market. If the labour market were

not in an unbalanced state, there would be no reason why every agent of production should not get his just reward according to his capacity, efficiency and strength; and the employers should get too their corresponding share according to their special qualities as efficient organisers.

That means that there is a possibility that all prices and incomes are equitable when freely regulated by the market. The action of men devoted to the task of regulating them artificially, can never reach equity or justice, however great their fairness, knowledge and good intentions. Only the plebiscite of all people casting their votes on the market in form of actual demands, under conditions of fair play, is capable of pronouncing an equitable veredict, truly democratic and objective by its origins, and peacefully acceptable for everybody.

Money is the best means ever invented for making consistent society, freedom and efficiency. If it has come to be used as a weapon of oppression, if it has been turned into an instrument of despotic and immoral power, this is due to the double-edged condition, which even the best things of the world manifest when they are misused. Through an imperfect knowledge of its virtues and dangers, money has been withdrawn from its rational function as a means of distribution and has been converted into an object of speculation. Let us restore it to its proper beneficial use and, as far as Economics is concerned, the aspect of the world will change not only in the economic, but also in the moral and political order.

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