

# The Economic and Social Problem

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## CHAPTER VII. CO-OPERATION

Between the isolated peaks of Individualism and the storm-tossed sea level of Socialism the fertile fields of Co-operation are espied.

So far we have been engaged in studying the reforms, which can only be attained through the law-making machinery of the State; we have also discussed the improvement of this machinery. Even the greatest optimist will agree with us that the hope of making an early progress on these lines, in any way commensurate with the pressing need, against the fearful power of plutocracy, is very slight. Whoever is in a position to know the intimate convictions of the masses realizes that the prevision of a bloody revolution is spreading fast. A very bad sign, indeed, for when the people begin to despair of any improvement by peaceable methods, the beginning of the end is near; unfortunately an end, which would be only the prelude to further battles. A co-operation for the destruction of the old house might perhaps be obtainable, but a fearful fight would rage over the plans of a new building; meanwhile rain and storms would chill the shelterless. The danger is so imminent that it would be imprudent to rely on one single method. The work in the political field does not exclude action in another direction, where we can beat the adversary with his own weapons. Meeting combination with co-operation, we must oppose to the Trusts cooperative production and distribution; to the money monopoly, the organization of credit; to the capitalist's banks, the workers' Mutual Banks.

The history of co-operative production has not been a very brilliant one. In fact, it is only since co-operative distribution has made such wonderful progress in Great Britain that we see a little advance in this department. This is easily explained, for the difficulty producers find all over the civilized world, in our epoch of a so-called overproduction, is not the organization of production, but the sale of the product. Where even experienced businessmen fail by the thousand, what can be expected from workingmen, who, however proficient they may be in their special work of production, have no experience of trade and its ramifications? Their means, as a rule, are too limited to command business talent of a high order. Their experience is too small to effectively control the commercial manager and to avoid the fate of that gentleman who, having supplied the capital and his partner the experience for the concern, after a year found his partner had got the capital and he the experience.

It wanted the previous success of co-operative distribution to supply the missing links: sufficient capital and custom to allow production full scope. Since 2,332,754 men and women, representing ten million consumers, have united in Great Britain to establish cooperative distribution with a joint capital of 160 million dollars, yearly sales amounting to 500 millions have been made, with a profit of 55 millions. (Report, 1906.) A market has also been opened for the products of co-operative labor. The result is that though we are only in the beginning of this branch of co-operation, 40 million dollars' worth of goods sold in the co-operative stores are manufactured by co-operatives. This does not include what is bought from co-operative productive societies, whose total trade amounts to about 25 million dollars.

Yet close observers of the co-operative movement have lost much of the enthusiasm, which they once felt for it. More and more we have seen distributive co-operation restricted to the

sole purpose of reducing the cost of goods, with a complete blindness to the fact that a general success of this work might finally merely result in a fall of wages, hastened by the appearance in the labor market of the former traders thrown out of work. Cost of merchandise has been greatly reduced by even more powerful agencies than co-operative distribution; and the result has been anything but beneficial to the masses of the population. The attacks against cooperative stores, therefore, are justified so long as their efforts remain one-sided; so long as they are mainly directed towards the cheapening of articles of consumption. It would be quite different if the profits obtained were used to force on economic reforms in the direction of creating employment and consequently raising wages. If the fifty-five million dollars yearly profits made by British co-operators, instead of being distributed as dividends, were used to purchase land for the co-operators, as many as fifty thousand workers, or a population of a quarter of a million, might be settled every year, relieving the labor market in a double way: (1) by changing laborers into farmers: and (2) by increasing the demand for co-operative products in exchange for farm produce. Co-operation could then make use of a powerful weapon for the increase of its circle, so as to make it embrace the bulk of the nation within a measurable time. This weapon is Exchange-Banking. Let us first understand the general features of the system.

Exchange-banking, or scientific barter, tries to combine the advantages of the monetary system with those of barter, or rather it tries to secure the benefits of money as a means of universal barter, without the obstacles which it puts in the way of exchange. In its most primitive form, that adopted in Robert Owen's labor exchanges, as far back as the thirties of last century, and in De Bernardi's American labor exchanges, founded about thirty years ago, but disappearing after a decade or two, stores are organized in which goods are deposited, or at whose disposal labor is offered, the payment not being made in money, but in orders payable in the goods and labor offered by the store. As salable labor is also a merchandise. I shall in this chapter include it in the term "goods" for simplicity's sake. Each depositor pays himself with the goods of another depositor, the orders through which this is accomplished becoming the money of the circle.

A great improvement on this plan was that of the great Frenchman. Pierre Joseph Proudhon. His *Banque du peuple*, which, unfortunately, remained in the embryo state, was to issue the orders to all who held goods at the disposal of the bank, and who thus could pay themselves in turn by the goods of other members. The store was extended so as to include all the stores of the members, in fact, all their productive and trading power. It was Proudhon's ambition to so extend the circle that it would gradually embrace the whole of France. This is best evidenced in the Memorial which he addressed in the year 1855 to the Prince Napoleon in regard to the use to be made of the Palais d'Industrie. (Appendix to *Theorie de la propriété*.) He wanted to establish there a permanent exhibition of all producers of the country where orders could be accepted (and, I suppose, for certain not very voluminous goods, as far as stock went, also executed on the spot), the payment to be made in exchange paper issued by the organization, a paper which, through being payable in all the products of the country, was bound to have the full purchasing power of legal tender money. It is a great pity that this *Société de l'Exposition Perpétuelle*, his best work, is so little known. Nothing else the great genius has produced shows him so little of a crank and so much of a practical man of business. In a masterly way he sketches the immense influence which such an institution would have on production and circulation, on interest and rent, on the waste caused by superfluous middlemen, and on the general distribution of wealth. Nothing is impracticable in the grand project, not even the enthusiasm of the author, who never for one moment flattered himself with the vain hope that the dreamer on France's throne would really accept his proposal. If the moment when the founder of the Bonaparte dynasty dismissed Fulton with a jest, addressed to his surroundings as to the impracticable projectmaker, decided the emperor's fate by depriving him of the only chance he had of conquering England, we may say that the neglect of Proudhon's grand idea

deprived the second Emperor for ever of the possibility to make France the first industrial and commercial power in the world, and to establish her national wealth on the most solid basis.

Proudhon's agitation had at least one practical result: the establishment of Bonnard's *Exchange Bank* at Marseilles in 1849 (Proudhon had published his *Banque d'Echange* in 1848). In 1853 the business moved to Paris, where, according to Professor Karl Knies, in *Credit*, the turn over from 1854-55 amounted to 45 million francs. It still existed in 1897 under the name of *Comptoir Central de Cr dit*, J. Naud & Co. (Naud was Bonnard's son-in-law). It not only existed but prospered. Its yearly publications showed a very large list of firms who accepted the bank's exchange paper. This consisted of engagements backed by promissory notes, signed by the members, who had accepted a credit from the bank to supply within a fixed term a certain amount of their goods or to pay in cash their notes deposited as collaterals. The credit was, of course, only given in the shape of a loan to the members, consisting in the engagement of some other member, whose goods the borrower needs. A commission of from 3% to 5% was taken by the company, which was not co-operative, but a stock company working for dividends. Its success proves to co-operators how important is the mine of wealth they have left untouched.

The co-operators of Great Britain could at once make a success of the scheme. A co-operative currency could be issued by the Wholesale Societies of Manchester and Glasgow, differing from ordinary currency in not consisting of a special commodity like gold, or a promise to deliver gold on demand; but an engagement to directly supply the things for obtaining which the present currency is finally used. Or, let us rather say, ought to be used, because exactly the fact that in many cases it is not so used, but is employed as an instrument for the exaction of usury, is responsible for most of the evils we are suffering. The notes issued by the Exchange Bank department of the Wholesales would not promise to deliver gold to bearer, as otherwise the law against the issue of bank-notes would be infringed, but to supply goods to bearer at cash prices. Such notes can be issued in England up to forty shillings without paying stamp duty. They would be made redeemable in any one of the different co-operative stores of the kingdom. The stores would accept them readily, as they could pay for their purchases from the Wholesales with them. Those stores, which are not yet members of the Wholesales, would here find a strong inducement to come in, because the acceptance of the notes would mean additional business brought to their doors. In a population of ten million, the members of the co-operative societies and their families, this currency, to a certain extent, would be as good as the present money, and they would be ready to accept as much of it in payment as they could pass on. They would consequently be ready to buy these notes from their employers for the cash received for wages, the only way in which, for the time being, the Truck Acts, made for an entirely different purpose, permit the transaction. The employers, being able to pass on the paper to their employees, and also to buy with it from the stores any goods they required for their own use, would accept the paper from the Wholesales for at least part of the goods supplied. Manufacturers do anything in their power to obtain custom, and the Wholesales are large buyers and good payers, to whom everybody tries to sell.

It will be readily seen how an entirely new class of members, or customers, would thus be recruited for the co-operative societies. Not only the manufacturers and farmers who accepted the notes for their goods would come in, but also those of their employees who are not already members; also many of the purveyors of these manufacturers, farmers, and employees, who are just as anxious to obtain orders, etc. All these would buy their supplies in the co-operative stores, if obtainable, while the stores would gradually extend their lines until anything could be obtained from them at regular prices. The traders of the circle could even afford to pay a little more for the goods they buy with the new currency, because every such purchase means a corresponding sale of their own wares. What store would not rather pay 5%, more for a merchandise, if the purveyor agrees to take in payment goods on which 15%, net profit is made? In the same way, all who sell to the Wholesales for Exchange notes could afford to give

better terms to those who accept the paper from them, their own purveyors and wage workers. The latter would obtain the additional advantage of a greater security of their positions. Their acceptance of the notes would ensure to the employer a corresponding custom, and consequently enable him to keep them in preference when other employees are dismissed because cash business is slack.

In this way, the co-operative circle would rapidly increase, until it would gradually monopolize the greater part of the home trade, until most producers and most consumers of the kingdom would form part of it. The amounts of the new currency thus kept floating would then exceed that of all the present banks of the country.

The interest saved by the co-operative societies through the use of their own money and the profits made through the additional sales brought about by the new currency need not be paid out in dividends. The new members thus brought in do not come to get dividends, but because their acceptance of the paper procures them employment or custom. The extra profits thus made could be used for the development of co-operation, for its redemption from dividend-grabbing, and finally to the establishment of a Co-operative Commonwealth, in which anybody willing to work would find paying employment of the sort best adapted to his capabilities. Then cooperation would be looked at in a different light by the private trader, who now must be its enemy as long as it only deprives him of a living, without at the same time offering him the chance of a better one, with which the new system would supply him.

My own efforts for an experiment in this direction were made in vain. In the years 1896-7 I lectured in a number of British cooperative societies, wrote in their organ, the Co-operative News, and spread a booklet, *The Real History of Money Island*, in which I gave the imaginary history of an England as it would evolve through the adoption of my plans. I showed how the Trades-unions concluded to push the acceptance of the new currency among their members, to whom the co-operative societies supplied it for the purpose of starting co-operative production, a weapon found far more practical than the exploding strike revolver, which as often hurts the marksman as it hits the target. Gradually in this way the workers produced for themselves all they consumed, and in using part of the profits for the purchase of land made cheap through their refusal to work and live on the land of private owners wherever they could get land of their own co-operatively, they gradually rendered themselves independent of land owners as they had freed themselves of the capitalists. The two congresses which yearly met to fix prices and to debate questions of common import: the congress of the producers and that of the consumers, consisting of the same parties in their two capacities, gradually became the parliament of the country; general well being and happiness were attained, with universal peace and general disarmament, following the adoption of the system in other countries, and all other blessings which any decent Utopia is in duty bound to paint in glowing colors. The great social revolution was thus peaceably carried through.

The Real History proved that I did not make any particular impression on conservative co-operators, and I left England for her youngest colony, New Zealand, there to try the work independently.

If the co-operatives had taken up the plan the element of risk would have been reduced to a minimum, the risk that members become insolvent and fail to honor the society's orders. How inconsiderable this risk would be, even where the exchange-bank is organized by the ordinary trade, can only be realized when we fully take in the basis of Proudhon's plan: the substitution of merchandise credit for money credit.

We all know the great difference between the two credits. There is hardly anybody so poor that he is entirely deprived of merchandise credit, or is not giving it to somebody else. In fact, the poor, as a body, grant commercial credits besides which those given by some of the largest commercial concerns dwindle to a mere trifle. The wageworkers deliver their merchandise, i.e. their labor, on credit and get paid only after a certain time has elapsed. If only 150 million wageworkers all over the world have to wait for payday on the average not more than half a

week, all the year round, and if we average weekly wages at only three dollars, the sum thus continually credited by the workers to their employers amounts to 225 million dollars. In reality this credit is partly given, not by the wageworkers, but by their own creditors, the boarding-house keepers, retail dealers, house owners, etc. There is hardly a worker so poor but he finds one of these parties giving him credit for the necessaries of life until payday comes round. And going up higher in the circle we find numerous dealers and manufacturers, who could not raise a dollar at their bank, owing thousands for goods of some kind supplied to them on credit, and who could easily obtain many thousands more from the only too-zealous salesmen, who call on them and move Heaven and earth to obtain orders.

Now let us consider that, after all, what we now call merchandise credit is in reality a money credit, for, as a rule, goods are made payable not in goods, but in legal tender money; a money which, as we have seen in Chapters III and IV, is practically unobtainable in at least nineteen cases out of twenty when it is wanted. That under such conditions this indirect money credit is so easily obtainable can only be accounted for by the very intensity of the struggle for the scarce means of exchange, without which existence is imperiled. It is the life belt which alone can keep the swimmers above water; and for the majority, the sale of goods or services is the only way of obtaining this belt.

To effect such sales every nerve is strained; great risks are taken; and where cash sales are impossible credit is offered. Nevertheless, the risk is too great not to interfere seriously with the general exchange of goods and services. Proudhon and his successors recognized that this strangling of exchange was due to the intrusion of money, an intrusion which forces all trade through the narrow gate of money and credit. Hence they proposed to substitute the merchandise promise for the money promise; the merchandise paper for the money paper.

In our present system of currency we discern an ever-growing disproportion between base and superstructure; in the suggested system we have a never changing relation between the two, and thus an end of the danger due to their disproportion. The Exchange Bank, by giving to merchandise money wings and making the merchandise note take the place of the money note, creates a new money credit, which at the same time is a real merchandise credit. Of course, it is money credit only in a limited sense, for real money is accepted by everybody, while the merchandise money is accepted only in a certain circle. The more this circle extends, the more its money will, to every end and purpose, resemble real money. The form of the exchange note may be various; in New Zealand I mostly adopted that of the bank-note, with the following text: "The holder of this note is entitled, on or within a reasonable time after presentation, to goods or services to the value of from those members of the New Zealand Commercial Exchange Company, Ltd., who are liable to supply goods or services." If new issues were made, the words "or within a reasonable time" could be left out. In the case of purchases made with ordinary money, goods cannot always be at once forthcoming when the money is tendered. If we order a suit of a cloth, which has first to come from a distance, all the treasures in the world could not produce it at once. I had put in the provision only in order to guard against any confusion with the terms valid for our ordinary bank-notes and checks. The goods promised in these—gold coins—have to be handed over the counter at once, though it is just as impossible to carry this out, if demanded by all creditors, as it is for the tailor to supply at once a suit ordered to measure.

Experience has since made me prefer the check form, as recommended by John Armsden in *Value*, preserving only the small bank-notes for change. My reasons are:

1. The company ought not to rely on the interest demanded from the debtors as a revenue to pay current expenses. Our fight must be against interest, and we ought to make the interest charge as low as possible, after a sufficient reserve fund has been obtained. The revenue necessary to pay expenses ought to be mainly derived from a commission on the turnover, as in Owen's labor exchanges, though a much lower percentage than his— $8\frac{1}{3}\%$ , a penny for each shilling—could be demanded. Now, it is impossible to control the turnover of members

where the goods are sold, not in the store of the company, but in the member's place of business, if the payment is made by means of notes to bearer. Only when the payment is made with checks, not transferable, which the member who receives them has to bank directly, can the turnover be controlled. Of course, the bank must insist on having the name to whose order the check is made out filled in in the same handwriting as the rest of the check, to avoid the leaving open of such name, so as to change it into a paper on bearer for the purpose of saving commissions. Evasions are punished by exclusion.

2. Only in this way can the bank prevent outsiders from reaping without charge the benefits enjoyed by members, and only thus can exclusion, the most powerful weapon to keep members up to their engagements, be made effective.

In the commencement of a new undertaking like this, confidence is everything, and checks are more likely to inspire it when drawn by somebody known to the receiver; though the guarantee they give is not greater than that given by the notes to bearer. The two forms of exchange paper only certify that bearer is entitled to receive goods from those members liable to supply these goods because the owner of the paper or the party from whom he obtained it has supplied such goods to others, or is at any time ready to do so. The text of the check might read: "Exchange Bank: Deliver to Mr. X. \$ in merchandise, to the debit of Y." The bank certifies checks on demand, if in order. The company has no capital beyond its reserve fund to make good any failure of members. In case of losses exceeding the income from commissions, interest and the reserve fund, higher commissions would have to be charged to make good. However, it is supposed that—as has proved the case in practical work, even with the discouraging circumstances under which this work was done—though outsiders may force a member into liquidation for cash debts, the Exchange Bank itself will rarely have to resort to such extremities. For every hundred men who have to suspend payment because a certain yellow metal is not obtainable, not one would refuse to supply goods (or labor) for his debt. The very fact that there is not enough demand for these goods is responsible for the activity of our courts of bankruptcy. The risk of loss through insolvency of the members decreases still more with the extension of the circle, because the exclusion from the membership, the ultimate consequence of any non-fulfillment of engagements, might spell total ruin for the member. Each would use his utmost efforts to make good sooner or later. We must not forget the great difference between the Exchange Bank and the ordinary money-bank. The latter merely supplies money to its customers wherewith to buy goods or make payments of any kind; it does not insure that the money thus paid out will come back to its spender to purchase goods from him. The Exchange Bank alone has a right to say (what was mere nonsense on the part of Adam Smith) that "Money necessarily runs after goods, but goods do not always run after money." (See chapter IV.) Exchange money is not a merchandise by itself, as ordinary money is, but only an order for merchandise, which sooner or later will be presented by somebody to the party who issued it. Or, to be quite exact, for the order, which he puts into circulation some other order will be presented to him, so that buying also means selling. Any acceptance of an exchange-note (or check) means the compulsion to spend the same amount in the circle, for the notes are cashed only in this way. Each note becomes an active propagandist for the system, better than any advertisement could be. To present the whole system and its effects clearly to the mind of the reader, it may be useful to reprint an explanation I gave in my *Pioneer of Social Reform*, the organ of the N. Z. Exchange Bank, or 'The New Zealand Commercial Exchange Co.' I have made a few slight improvements:

"The Commercial Exchange Company is a society whose members are men of different trades coming together to do business with each other. They are grocers, butchers, bakers, tailors, shoemakers, farmers, and so forth, who need each other's products; but barter, the simplest way of getting them, is out of question. Barter may do between two parties of whom each needs what the other wants to get rid of, but not between a hundred, of whom number one wants what number two can spare, number two what three wishes to dispose of, and of whom

finally only number one hundred has any use for what number one offers in exchange. Under such circumstances, a medium of exchange—money—is necessary to pass from one to the other until it returns to the party who began.

We all know how our butchers, grocers, tailors, shoemakers, etc., obtain this medium of exchange at present, if they are not fortunate enough to own it through having received it in payment before they needed it. They go to a bank or a loan office and borrow certain pieces of a yellow metal, called sovereigns, or, in reality, they obtain the privilege of drawing little paper scrips, named checks, with which they pay each other, until finally, after a check has passed from number one to number two, from two to three, etc., and number one hundred has paid a check to number one, the latter recoups the original bank. For the right of drawing these paper scrips the parties pay an interest tribute to the bank, and are only too happy if they are allowed to do so; for the banks are very particular, and do not allow everybody the privilege of a credit, but only to those who can supply sufficient security that they will repay the loan at any time at which the banks demand it. If the banks do not obtain such security they will not give the loan; they will not allow the parties to draw the little papers unless they have paid in a corresponding number of the yellow coins called sovereigns, or their substitutes: principally checks certified by other banks.

This is the way in which things have been going on for some time now, and have been getting more unpleasant the more prosperous the people became. This sounds strange, but it is a fact, nevertheless; for the greater prosperity of the people resulted in a more extended trade, and this trade extended much faster than the stock of yellow pieces, or—what amounts to the same thing—of gold bullion which the Mint coins free of cost for anybody. This had the natural result that it became more and more difficult to induce the banks to allow the drawing of the paper scrips called checks, for the danger grew that such scrip-drawing without a previous deposit of the yellow metal might result in general bankruptcy of the banks and their debtors, for paper scrips are only accepted as long as the people believe that sovereigns can be obtained for them. The very moment there is any doubt about this, nobody wants the papers, but everybody will insist on receiving gold, often even refusing other kinds of scrips called bank-notes, which in some countries differ from the checks only in being drawn on the banks by their presidents, and payable to anybody who presents them at the banks, without their subjecting him to the trouble of signing or proving his identity. Here, in New Zealand, the stock of gold in the bank vaults amounts to only one-fifth of the deposits, that is, of the amount of sovereigns due to parties who have brought sovereigns, or an order for sovereigns to the banks; and this does not include the debt to the holders of bank-notes who also have paid in gold for them, nor does it include the debt of the savings banks. Including these the relation is only one-eighth. A very favorable proportion; for in April, 1907, in the United States, it was only one-twenty-sixth.

Now, the very moment these depositors become afraid that they may not be able to obtain the gold due to them, they will at once call for it, and as the banks are well aware of the danger thus threatening them (this threat has often turned into a reality) they become more particular about giving credit, the more the excess of scrip circulation over the gold stock increases. We have such a period just now, for trade has increased very much all round, while the gold stock has relatively diminished. Consequently, the demand for the paper scrips had to increase also, because without them no trade is possible, as sovereigns are too inaccessible to keep up our trade for a single day. The greater the demand, the greater the danger that the small gold stock might be depleted, and the more particular the banks are about giving credit, even at a high rate of interest. In this way it comes about that of all those people who want to trade with each other, a great many cannot obtain the right from their bank to draw the checks they need to pay each other, and many cannot even get a loan from the loan offices. If they do, they have to pay interest up to 60%.

Now, these people, or a certain number of them belonging to different trades, meet in their

club, called the Commercial Exchange Company, and say to each other: "Are we not great fools? Why do we go to the banks and usurers to obtain the right to draw paper scrips upon them, to pass them from one of us to the other, and finally to the banks again? Why not agree to draw those paper scrips upon ourselves, and to hand them back to ourselves? It may be done in a very simple way. We first appoint a number of trustees whom we name the Board of Directors. These print scrips somewhat like the banks' scrips, called checks and bank-notes, only with the difference that these scrips are not payable in gold sovereigns, but in the goods (and services) which the members require from each other. In reality, the present scrips of the banks are nothing else for most of us, for we take them, not because we want gold for them—in fact, we take them though we know that if it came to the pinch we could not obtain the gold—but because we know that those whose goods we require take them in payment. Now, if this certitude is all we need, what remains to be done is that we agree to accept our own scrips, and then we can borrow these scrips, or the right to draw them, from our trustees, and repay the trustees when we have received other scrips from members of the club. All we have to do to feel certain that we can safely accept the scrips from each other is to instruct our trustees to make sure that no member obtains the scrips on credit, unless we can absolutely rely upon his supplying goods at cash prices for scrips when some one of us calls on him for such goods. Of course, we shall give him a reasonable time for this delivery, because such time is given even where we come with sovereigns in our pocket. With millions of cash money in our possession, we cannot claim a pair of boots made to measure, at a moment's notice, but must give the necessary time to make them.

Here we have the whole secret of the Commercial Exchange Company. Its members supply to each other a means of circulation with all the qualities of that at present in use, merely omitting the roundabout way of occasionally claiming gold pieces, which in most cases are only wanted to pay for the goods which our papers promise directly. Thus we not only avoid the interest-tribute due to the owners of the gold pieces, but the danger inherent to promises of things, which to a large extent do not exist. The task devolving on our trustees, of making sure of our members' solvency, is easy, when compared with that undertaken by bank managers. The most cautious of these cannot always avoid disaster, for nobody can be sure of always being able to deliver things, the stock of which is too limited to go round. Our trustees are under no such difficulty, for the productive power of our members will always exceed the demands upon it. The general complaint of 'Over-production' shows that our trouble is not want of productive power, but the difficulty of selling the products. This difficulty will be much lessened when selling is no more exchange against a scarce commodity coined into certain round pieces of which not nearly enough can be obtained to satisfy the demand, but exchange against the products of others. With the lessening of this difficulty, the principal cause of failure in business will be out of the way. Honesty, capacity, and freedom from dangerous outside debts, will be the only criterions required by the trustees—by the Board of the Commercial Exchange Company—and the danger of loss by failures will be reduced to a minimum, for which a slight risk premium paid by the borrowing members will provide.

We hope that this explanation will make clear to every one desirous of information what the Commercial Exchange Company really is. It is a club of producers and traders founded to furnish each other with a means of exchange, a set of counters and a mutual credit, jointly secured, for the purpose of enabling them to trade with each other. There is nothing to prevent our club from gradually embracing all members of the community, and it is in the interest of every member to help to extend the circle so as to have it finally embrace all trades, so that anything wanted by the members can be supplied in mutual exchange. Then it will be the affair of the members to decide whether they wish to continue the club in its present form, or whether they prefer to merge it into that other club called the State of New Zealand, making of the old club a department of the larger club under the name of 'The State Bank of New Zealand.' "



Another extract from the same paper may serve to illustrate how the system works in practice. It is entitled *A Co-operative Bacon Factory on Exchange-Bank Principles*.

"More subscriptions are just now solicited for the Co-operative Bacon Factory at Woodville, more capital is required to purchase the full amount of hogs which the institution can cure. Naturally, it pays better to keep the establishment going at full speed, and so it seems a matter of course that more money is needed for the purpose. At first sight, every businessman must approve of the proceedings; and yet, when we investigate them carefully, we shall see how unnatural the whole thing really is, and how little the shareholders of this Co-operative Society are possessed of the co-operative spirit, the spirit of mutuality. If they really appealed to this spirit they would find at once how unnecessary it is for them to solicit new subscriptions for the purpose. Would there be any idea of raising more money if the farmers who supply the pigs took bacon in payment? Certainly not. In this case, the whole transaction would be reduced to a simple booking operation. It would provoke laughter if the Bacon Factory tried to raise cash to pay the farmers for the pigs, and then demanded the farmer's money for the bacon.

"Does the case change when one more member is added to the circle, when the storekeeper takes the bacon from the farmer, and the farmer takes his groceries from the store? It would be just as ridiculous for any of the parties to borrow money for the transaction, for there might simply be two separate barter, the one between the farmer and the factory of pig for bacon, and the other between the farmer and the store of bacon for groceries. Or if the process is simplified by the storekeeper's taking the bacon direct from the factory, the farmer might pay for his groceries by means of an order on the factory for the amount due to him for the pigs, and the storekeeper pays his bill at the factory with the farmer's order. This way of doing business, however, becomes a little less easy when another member is added to the circle. Let us suppose, for instance, that a wholesale grocer X, at Wellington, is the buyer of the bacon. In this case, X might give to the factory an order on the storekeeper Y, who buys his groceries from X. Y pays the order by one on the farmer, his customer, and the factory passes on the order to the farmer to pay for his pigs. Still no money is needed, but there may come in more links in the chain of trade between the parties; so that finally the buying by orders of this kind becomes absolutely impracticable. To provide for this difficulty the Co-operative Society called the New Zealand Commercial Exchange Co., Ltd., has been founded. It is nothing but a clearing-house between its members, under their supervision, exercised by a board of their own selection—a selection made on the most democratic system: the Hare proportional vote. Let us see now how the parties would deal with each other under this system. To begin with, the factory would become a member of our company, and would borrow our exchange-notes to buy pigs with, or draw checks on us on credit. It would find no difficulty in placing the notes or checks among the farmers for pigs, provided it can satisfy the farmers that the country stores will accept the paper. This is easily accomplished if one single store in a section is won over; for, in that case, the others are bound to follow suit if they do not wish to lose the custom of the farmers. The stores only want the certainty that they can pass on the paper in their turn, and this certainty will be given them by the wholesale grocer who is ready to accept the paper for groceries; because he purchases the bacon from the factory, and can pay it with the paper, which the bacon factory can either pay back to us, or, by passing it on again to the farmers for pigs, begin the same circulation over again.

"Every one of the four parties here concerned has benefited by the operation. The factory has obtained cheap money, and a customer who will do all in his power to sell the co-operative bacon, because the more he sells the more groceries can he sell to the country stores, who otherwise might give their custom to others. The storekeepers likewise are sure of obtaining a custom, which, in many cases, would have gone elsewhere. The farmers do well, because they have a certain sale for their pigs at remunerative prices, for there will be no cutting in the circle as in cash business. The reason for this is a very simple one. Cash can only be obtained in the

world's market, and this market suffers from an excess of a demand of cash over the supply, with cutting of prices as a natural result. When this money is eliminated, and when goods are bought with goods, as in our exchange circle, business improves.

"Every purchaser with our paper necessarily obtains a customer who pays with the paper. He is certain of making a profit on a sale, and therefore can afford to pay well for what he buys. There is no need of cutting in such a case; 'Live and let live' is the motto of all members of the circle."

To show how wageworkers could benefit by their membership in the Exchange-Bank I reprint the following dialogue from *How to do Business without Money*, published by the New Zealand Commercial Exchange Co. in 1899.

"Question. Your Exchange may, perhaps, increase the income of the employers, but how can it benefit the wageworker? I can understand why he favored De Bernardi's American Labor Exchange, an institution in which, if he found no employment, he could directly sell something he produced, and make himself paid by the produce of other workers; but in which way is your system to help him?"

Answer. Certainly the advantages of the American plan are more obvious to the worker, though I cannot understand how it can benefit the great mass of workers, who do not see their way to produce on their own account any goods for sale, but have nothing else before them than to work on wages for an employer, if they find one. You also must see that De Bernardi's combination of storekeeping with exchange banking has fastened a heavy clog on the system which makes it almost unfit for a wider application. Our method is free from this incubus, and by interfering as little as possible with the existing business systems, by adapting itself to the present machinery; it opens the path to an easy and speedy victory. What could a New Zealand wageworker bring into the Labor Exchange if we adopted the American system? A few shoemakers might bring shoes, but they would not find any leather in the shop, because tanning needs too much capital to be undertaken by workers who have nothing but their hands. We are past the primitive methods of production, in which such a system might have directly benefited any worker. To do any real good we must adapt ourselves to the complicated systems of the twentieth century, or we are doomed to that failure which finally overtook the American Labor Exchanges.

And now I am going to show you how a wageworker can get the benefit of his membership in the exchange bank on our system. Let me suppose you to be a shoe manufacturer, totally unacquainted with our institution, and me, a wageworker, out of employment, but a member. I come to you and want work, and the following conversation ensues:—*You*: "Have no work; sent off already several applicants to-day." *I*: "Yes, because they wanted money from you; I do not." "No money? You do not mean to say you work for nothing?" "Certainly not, but I take shoes in payment." "What can you do with them? You cannot open a shoe shop; besides, the Truck Law does not allow me to pay you anything else but money." "I know. I mean that I at once repay you your money, and buy an engagement from you that you will furnish your goods at regular prices for the amount I paid you to anybody who comes with my authorization." "I would be perfectly willing to do that, and to give you permanent employment on such terms, even if you want to keep some of the money, because the only reason I could not employ you before was that I had little money, but plenty of boots and shoes. Yet I cannot see how you can manage to sell your order for boots and shoes."

And now I explain to you the organization of our Exchange, which enables me to pay for all I want with such an order for shoes. This order you give me in the form of notes or checks of the Exchange, of which you become a member, accepting a credit on the force of your stock and the new goods produced by my work.

But this is not the only advantage given by the Exchange to the workers if they join in sufficient numbers. The reserve fund, which will grow from year to year, could supply them with the capital they may need to set up as independent producers. Their co-operative

organization may supply the necessary security, and the progress brought about by the Exchange system would put out of their way the present most serious obstacle to their success, the difficulty of disposing of their produce. In a market in which even the skilful and experienced businessmen often succumb in struggling for the scanty gold stock, the co-operating workers have a poor chance. Their commercial management is rarely as efficient as that of the capitalist. After the new currency has rendered it easier for a producer to sell his goods, co-operative production will thrive."

To show how the business done through the exchange bank creates an absolutely new production; that it does not take away one man's bread when it procures employment to another, as is often the case with the circulation based upon our monetary system, I might add that thousands of town-workers have to refuse fruit and vegetables to their children, whose health badly needs it. In consequence of this, farmers and gardeners, who need shoes and other products of labor, cannot buy them, because they cannot obtain money. Owing to this fact their fruits have to rot on the tree, their vegetables run to seed, because there is no custom for them. The exchange bank puts both parties into communication and obtains employment for them, which otherwise would be unobtainable. By this it does not deprive anybody of his bread, but procures bread for all, by transforming latent productive power into a real one.

I desire to call attention to another advantage which the bank gives to its members: it supplies an effective weapon against the Trusts, as it deprives them of their boycotting and discriminating power, visited upon those who buy from competitors, for it protects the competitor's continuance in business, because the circle will give him its custom. I repeat that buying from a member in the circle means selling goods to others, and thus even a higher price is practically cheaper to the amount of the profit made on the goods sold in exchange. Of course, the trusts might also join the society, but as unfair dealing entails exclusion, their continued membership would only be rendered possible by a renunciation of their tricks. Where the trust has no competitors in the circle the members can start such, with the help of their custom, for this custom is more important than the capital required, which is always obtainable where a sure profit can be shown.

The circle needs no protective tariff to insure full work to its members, for even if a foreign competitor sells cheaper, the society's producers will not lack custom. Its reciprocal system insures it. Importation by the circle will only be possible if, directly or indirectly, it is paid for by exportation, for only in this case is the circle's paper of any use to the importers who accept it in payment for foreign goods. The circle's system insures Reciprocity far better than any tariff tinkering. I refer to Chapter IV, in which I have shown the fallacy of the free-traders' contention that goods are always paid for with goods, and that therefore imports insure a corresponding amount of exports. Our present money is an international commodity, which may or may not come back to buy goods in the country from which it was obtained for goods. Our exchange-paper, on the other hand, must come back; if it did not, the goods purchased with it abroad would have simply been given away for nothing.

I cannot leave the subject without referring to certain difficulties in the way of an Exchange-Bank, or 'Mutual Bank,' as it is also appropriately called. In the first place we have the danger of domination by wealth, the fate thus far of all great corporations in this country, a danger easily avoided by attaching the vote to membership and not to share capital, each member needing at least one share of the company, but no share by itself entitled to a vote. In this way outsiders who buy shares cannot vote and members cannot increase their voting power by purchasing more shares than one. By limiting the dividend to the usual percentage obtainable on capital there will be no great demand for shares on purely mercenary grounds. The bulk of the profits would be used for strengthening the organization. Another danger, that of controlling general meetings by means of proxies, can be easily overcome. A confirmation of all decisions made by the general meeting through a referendum of members voting directly by postal cards specially issued by the bank may be made compulsory at least in all important

matters. The referendum, democracy's protection against the representative, is also available to protect the stockholder against the proxy holder. If, besides, the directors are elected on Hare's proportional system, as described in Chapter VI, all the necessary safeguards against domination by capital will be supplied. This does not mean that plutocratic wrecking is thereby excluded. In fact, this is the point where the new institution will encounter its greatest difficulties and dangers, as my practical experience in New Zealand showed. In that country I found that the greater the extent of a business, the more dependent it is on bank credits; and, though the exchange-bank could gradually free its members from money-bank credits, it cannot do so in the initial stage; so that the fear of suddenly being called upon to settle with their banks kept the best firms from joining, who otherwise might have become members. This naturally had a discouraging effect on others, and thus brought an element of weakness into the work. In the United States, where plutocratic influence is stronger than anywhere else in the world, institutions of the kind here proposed will meet with greater difficulties. The case of the People's United States Bank in St. Louis shows how these influences can set in motion the power of the State to get rid of inconvenient competition. Nobody would have imagined that the United States Post Office, an institution whose object is to serve communication without any regard of persons, could one day be used by plutocratic interests to ruin a bank, which stood in their way. A simple decision of the postal authorities sufficed; and against such a decision there is no appeal to the courts. The Crumpacker bill, which was passed with but one dissentient vote in the House of Representatives, would have terminated this absolutism; but it did not pass the Senate, being kept back until the close of the session. The president of the bank was also the publisher of two monthly journals, with a combined circulation of two and a half million copies. To increase his affliction, this enormous business was suddenly stopped by Geo. B. Cortelyou, the Postmaster-General, by refusing their customary right to the mails at the lawful rate and subjecting them to an arbitrary and ruinous postage. The bank was an enterprise in which more than three million dollars cash capital were invested, against which, in spite of all efforts, no illegal methods could be proved, and which was so thoroughly solvent that, in spite of the shameful persecution to which the Post Office subjected it and the enormous costs its defense involved, all its creditors were fully satisfied, and even the shareholders had their money almost fully paid back (87%). This enterprise was declared fraudulent and its officers were excluded from the mails, so that even its president was isolated from all postal connection; not permitted to receive letters from his own mother. This is a sort of punishment not even inflicted on a condemned murderer. And this happened, not in Russia, but in the United States, and in the 20th century!

Well, the People's United States Bank was an innocent baby compared with an exchange bank, so far as the interests of our existing banking world were touched by it: for its only offense was the saving of check-cashing and money remitting expenses; whereas the exchange banks would put an end to a considerable part of the turnover made by our present money banks.

While this book is being prepared for publication a long expected event occurred, which on the one hand must bring an accession of strength to exchange banking, while on the other hand it will diminish the antagonistic influence of money banks. The financial crisis, foreseen in these pages, came over us suddenly, with elementary force, and with it a host of explanations, out of which I select one, because it will specially amuse those who have so far followed me. Its author is Frank Arthur Vanderlip, who enjoys in this country some reputation as a financier. According to him, the crisis is explained by the enormous loss of capital the world sustained during this decade by the Boer and Russo-Japanese wars, preceded by the American war with Spain, and followed by the San Francisco earthquake and fire. This shows that even the 'chiefs' of our financial world have no true conception of the real nature of this crisis.

What sort of capital was destroyed in the catastrophes mentioned? Evidently only the products of agriculture and industry. But what is the main signature of the crisis? Clearly, in

the first place, the want of paying employment in the domains of production. Consequently, according to Mr. Vanderlip, the exceptionally great demand for the products of labor that followed the destructive events mentioned is the cause—not that, as every person with some common sense would guess, there must be an extraordinary demand for labor of all kind—but that demand for labor and its products has decreased. Isn't that wonderful? I hope I need not mention that it is absolutely indifferent which products of labor have been destroyed, for there is not a single one—beginning with articles of consumption, including war materials, and ending with the tools of production—for which producers would not be most happy to obtain more orders. Then what kind of capital can be meant by Mr. Vanderlip? Money? Now. I cannot conceive in which way the events mentioned could have destroyed money. Much money has changed hands, and in this change of hands the United States, who to a large extent had to supply the destroyed goods, especially food materials, for which they received money or its equivalent, have certainly not been the losers. Besides, it is well known that during the decade in question the world saw such an unprecedented increase in the production of the yellow metal that many attributed to it the rise of prices and talked about another change of our standard of value. In which way, then, can the events referred to have caused the crisis?

As a matter of fact, the very contrary is true; these events, instead of causing the crisis, actually postponed it. Without them, it would have arrived long ago; because the turnover of the world in merchandise of all kinds has more and more run ahead of the money stock, so that credit had to supply the means of exchange in ever growing measure. The cash extracted from hoards by the new war loans and San Francisco insurances increased the money circulation and expanded credit, which brought about and kept up a great business revival. If we study the history of crises we find that they often break out two years after the termination of a costly war, not as consequence of the war, but because the increase of circulation due to the war, which for a time had postponed a crisis, became exhausted after two years. On this ground I predicted the present crisis for August, 1907, two years after the peace of Portsmouth, and was only two months wrong.

There was no need for such far-fetched explanations of what brought on this crisis as Mr. Vanderlip's. It required a continual presence in the midst of Wall Street's skyscrapers to lose the free outlook over the financial world to the extent exhibited by this bank manager. Otherwise the gentleman would not have needed artificial explanations to realize that where the banks owe thirteen thousand million dollars, with only one thousand million behind the debt, of which not quite one-half consisted of legal tender coins, a mere breath of distrust must bring about a downfall of credit. It was not alone the increase of the turnover, which can be made responsible for such abnormal conditions. Speculation in watered stocks and bonds had its goodish share in the enormous excess of deposits over the cash stock. The owners of these water papers borrowed on them from the banks, and though only a part of the quoted value was taken into account, still the sum by far exceeded the value, which remained after the crisis press had begun to squeeze out some of their watery components. The amounts thus borrowed formed a considerable part of the deposits, for which real money had never been paid in. They actually only formed water foam that had condensed into gold debt. Unfortunately, no matter what formed the origin of this part of the banks' debts, they had the same claim upon the attenuated gold stock, which the real depositors were entitled to. And, still more unfortunately for the latter, these foam-born deposits belonged to experienced financiers, who, knowing the watery origin of their own credits at the banks, for which no real money had ever been paid in, fully understood the danger thus threatening all depositors. Thus they were among the first who called for their money, or rather that of the real depositors, who, as a rule, were less initiated into the state of things and consequently came too late. The latter had to be content with clearing house and cashier's certificates, those illegal forms of paper money, which were the product of the crisis.<sup>1</sup>

It can easily be seen that all this materially changes the prospects of exchange banks. The

reputation of their enemies, the money banks, has not only sunk in consequence of the lending manipulations just described—in which not merely the New York banks participated, but directly and indirectly many of the other banks of the country, who lent their legal reserves at a high interest rate to Wall Street's water-born paper, but the banks have deprived themselves of their best weapon. This weapon, the appeal to the old superstition that only paper backed by cash has a right of circulation, has perhaps never been used with less right than by those who made 13,000 million gold debts upon a backing of 500 million cash and 500 million of bank notes, guaranteed by the government, the basis of the check circulation of this country. But, as if this were not enough, the banks have added another weapon to the arsenal of their rivals by the issue of those money-substitutes, unknown to the law, just mentioned, the clearing house or cashier's certificates, of which millions circulated. The partisans of exchange banking have a perfect right to say that their paper is based on a far surer foundation than the scrip just mentioned. Exchange paper is based on real goods held ready for it, while the bank's certificates practically have no gold behind them. This must finally lead to the failure of the promising party. All business based on them leads through the narrow gold door; while the promises of the exchange bank are built on the productive power of able men, whose solvency is no longer exposed to disastrous shipwreck on a hidden gold rock. At all events, though the chances are greatly improved, a severe battle can hardly be avoided, and a strong reserve fund will be found of great importance to the new institutions.

The commission on sales and the interest on loans ought to be fairly high, in the beginning, to collect a good reserve fund; but as this fund is mostly supplied in goods held at the disposal of the bank, it will have to be turned into cash with the help of disinterested friends, who only deal with the circle to help the work and purchase exchange-paper for cash, or open an exchange-bank account by paying in cash, which then is redeemable in exchange-checks only. Officials with cash salaries, independent men living on their incomes, may choose this way of establishing better conditions. The larger the cash fund, the more able the bank will be to help those members whose adherence may subject them to attacks from the money power. Attacks most effective in the commencement, through the necessity of paying rents, taxes and freights in cash, until the circle has extended so far that its paper is taken everywhere. Discrimination in favor of landlords and railroads who accept the paper; use of the reserve fund to buy land and a controlling interest in railroads or to build new lines and then to boycott the refractory roads, until this is no longer needed; and last, not least, political education of the members and full use of their vote to obtain government ownership of land and public utilities, and the use of exchange-paper by the government to pay officials and other expenses so as to render possible its acceptance for taxes, must do the rest. When the corporation is once so rich that it can procure all the land and railroads the members require, so that it can force down the value of the remaining land and roads and finally control all, thus forming an organized co-operative commonwealth, a state within a state, its political power will have become so great that the ballot can do the rest, can materially accelerate the final victory.

To further the great work, an institution may be recommendable which I found very useful in New Zealand: the issue of a periodical, in connection with the Mutual Banks, as their central organ. This organ will not only give the lists of new members—until the membership becomes so extensive that it may be less troublesome to publish the names of those who "do not accept the people's paper—besides other notices of the institutions, but it may also become, what the name of its New Zealand precursor implied, a 'Pioneer of social reform.' Its main task would be to unite the members on the great reform work yet to be performed by them in their quality of citizens, independent of parties, especially Mutual Banking. To insure to the paper a larger circle of readers than any other paper possesses, and thus to make it also a powerful protector against annoyances by the financiers, the arrangement I made in New Zealand might be copied. The paper might be given in the place of a dividend on the one bank share, which every member must own. If \$5 shares are made, a dividend of 5% (with the advertisements)

would pay the expenses of a weekly. This would save the work and the cost both of paying out the small dividends and of collecting the subscription fees. The second-class privilege, forfeited by free delivery, would thus be secured.

One detail merits a short reference: the question of territorial extension of the bank's organization. Are we to have a United States bank with local branches, or State banks federating? I think the latter plan better adapted to our institutions, without wishing to see obstacles put in the way of members joining the organization of some other State, instead of the one where they live, if they prefer it. However, in the beginning, a concentration of power in one single organization might be preferable. As they strengthen, branches might gradually become independent and remain in contact with other similar banks through a central clearinghouse, with control over its members. Much must be left to local initiative, and no projector can foresee all contingencies of practical work in the future. In all this I merely intend to give the results of my own ideas and experience, which, though they may obviate the necessity of similar experience for others, cannot pretend to surmount new difficulties, which may present themselves.

Proudhon's writings, Owen's work described in George Jacob Holyoake's *History of Co-operation*, the experience of Bonnard and his successors, the writings of John Armsden, of William B. Greene, A. Whittick, Arthur Kitson, Hugo Bilgram, Alfred B. Westrup, etc., may supply additional help. Faithful pioneers, all of them, for the great work, whose victory they prepared. Perhaps at last the great moment has arrived which sees the fruit of so much labor, seventy-five years after Owen and sixty after Proudhon spread the first seeds. The Crisis of 1907 is a splendid propagandist. I have tried to condense its lesson in a paper, which appeared in *Out West* in January, 1908, under the title, *The Crisis in Jackassville*. I here quote the little story with which the article begins:

"Jackassville was in great trouble. This is how it came about. An epidemic had broken out in the town, and the doctors were at a loss as to its origin, until one of them, wiser than the rest, attributed it to contamination brought about by the circulating coins. Upon this the City Council at once decided that all the coins in the place had to be thoroughly washed with soap and water and then allowed to dry in the open air on the common for 24 hours. Faithfully the programme was carried out. Unfortunately, there passed that way a tramp, who was not at all afraid of infection, and took the risk of carrying off all the money he found spread out on the common, even stealing a good sack from the miller for the purpose. The next morning there was howling and gnashing of teeth, and a messenger was sent at once to the seat of government with the request for immediate help, for the city was absolutely destitute of money, and starvation would soon ensue. The Governor at once repaired to the place and took in the whole situation. The town was well provided with wheat, cattle, vegetables, fruits, wool, cotton, fuel, timber, and, in fact, all raw materials necessary to feed, clothe and house the people. There was plenty of skilled and unskilled labor of all kinds ready and anxious to do all the work needed to change the raw materials into bread, meat and other food, into clothes, boots, houses, furniture, and so on, as had been their wont. All this was in the best order, and so the Governor told them; but I am afraid it cost him votes at the impending election, for the general opinion was expressed in the indignant words of the Mayor, who replied: 'We know all that. But don't you see, Governor, that we have been robbed of the last cent, and that nobody has any money left to buy the good things he needs? We thought we had made the case clear enough when we notified you of the general poverty into which we had fallen through the shameful act of that tramp.' The Governor saw that it was no use insisting on the fact that people do not live upon money, but upon the products of labor, which they require for their sustenance, and that of these there was more than plenty in the town. So he decided to teach them the lesson they needed in some other way. Telling the assembled City Council that they were right, and that he had thought of that before he left the capital, he pulled a roll of large bank notes from his pocket and handed them to the Mayor as a temporary loan from the

Government. The money was received with many thanks, but the great difficulty at once presented itself that there was no small bills and no 'change'; that the bills were altogether too large to be used in the ordinary business intercourse of the place. 'I will tell you what we will do,' said the wily official. 'You deposit these notes with me and I will act as your trustee, who keeps the money as a security for the cheques you are drawing to pay each other with. The Mayor, who knows you and your transactions, will, of course, certify only the cheques which are all right—which means those which you draw for goods actually received for services rendered, for which you are at any time ready to deliver goods or services in turn. Those who can be relied upon to do so are solvent, and their cheques will be certified.' And then the Governor went away, and business prospered in Jackassville as it had never prospered before. The cheques were every day cleared by the Mayor—which means that he kept a large ledger, in which credit was entered to each man for whatever cheques he brought in, while the cheques, which he had drawn were deducted from his credit. As the citizens did not draw any more cheques than they received, the accounts always balanced. If this was not done the same day, it was mostly done within a week. If there were a longer delay the Mayor did not mind it if he knew the parties were solvent. Nobody ever called upon the Governor for any of the money he loaned the Mayor, and which the Governor held in trust. As a consequence, at a public meeting held one day it was proposed to authorize the Governor to pay back the money to the Government, as they did not need it, and might as well save the interest they had to pay for it. This was done, and business flourished as well as before in Jackassville. A strange story, isn't it? So much like another just now told of a certain people, called the American nation."

I then applied the story to the prevailing crisis, by showing how the country is rich in everything that human beings require, and that only in consequence of our folly of making a scarce metal our only legal tender we find ourselves without adequate means of exchange. That now the hour of delivery may have sounded, for our money banks are the very parties to show us the instrument of reform. Their scrips, though without any legal authorization and security, did the service demanded of them, in spite of their being only accessible to a minority, to the few who had money due them by the banks or who could supply sufficient collaterals. The moment may come which sees our business world—perhaps under the initiative of its Chambers of Commerce—create a means of exchange, which cannot be locked up and monopolized, which is accessible to every one without any further security than the proof of his productive power and his readiness to supply it, the best security in the world. Meanwhile the law givers at Washington debated which of the two miserable palliative measures was to become law: the emergency currency of Aldrich or the asset currency of Fowler, not being able or willing to rise to a real reform action, such as the creation of a postal savings bank, with a check circulation which gradually might do the work of a central bank. While a valuable opportunity was thus lost, the manufacturers of the country, the owners of railroads, the merchants and the farmers of the country, with such of the bankers as are capable to tear themselves away from a selfish one-sided personal interest policy, might unite for the issue of a new Declaration of Independence, the independence from the gold fetish, by creating a currency based on the surest foundation, upon the labor of a great nation freed from gold fetters, by setting in motion that gigantic force, which even now, under the load of the mightiest burdens, calls forth the astonishment of the world—Credit. Then the workers, kept in forced idleness, will set in motion the resting and rusting giants of iron and steel. Panting freight trains will cross the country with reawakened activity; the stores will fill with a renewed crowd of customers; the nation's life will throb with hopeful forces, so soon as the great banner of liberty is raised, the banner on which the proclamation is made in gigantic letters: *Product for Product, Work for Work!* In hoc signo vinces! Under this sign, that of free exchange, thou shalt conquer, poor hard working humanity, freed from the golden fetter which cuts so deeply into thy flesh; but not otherwise; for without free exchange labor cannot possibly develop to its full capacity. It is true gold is not the only fetter. Land-monopoly and



others will for a time still oppress us; but we shall easily throw them off after the heaviest one of all has been annihilated. What then will become of the nation's official money? Its legal tender need not trouble us much, so long as the unlegalized tender is universally accepted. It may still find its use as change, or it may serve as a hoarding material. It may for a time serve to steady prices, still made in legal tender money, though hardly ever paid in it, except in small dealings, to finally give place to a scientific currency on the lines drawn in Chapter III. It matters little; for, important as a steady money-standard may be, it is only a secondary quality of a good money; its first and fundamental endowment is its accessibility. Even a money with a variable purchasing power, which is easily obtainable by any one who wants to work in exchange for it, is far better than a money with the most stable standard, which the usurer may lock up.

I am unwilling to close this chapter on co-operation without alluding to three forms of co-operation which are not without some importance. The one is that presented by the experiment now made in England under the name of *Garden Cities*, of settlements near large cities where manufacturers can have their works in the good air of the country, in proximity to the farmer, and where the workers and people of leisure can have all the advantages of the country and the town combined.<sup>2</sup> The land owned co-operatively, bought at agricultural prices, is supposed to be raised to city value through the access of population. The increasing income through the rents, which rise with the growing demand and with public improvements, after a moderate interest is paid to the stockholders, is spent for these very improvements, which thus swell the source they spring from. Fairhope, in Alabama, is organized on this principle, mixed with the idiosyncrasy of paying tenants' State and County taxes out of the town's rental income, because they want to call it a Single-Tax colony.

The other co-operative scheme is concerned with Co-operative Houses and Associated Homes. When we want to produce cotton goods, the steam engine takes the place of thousands of wheel turners; but when we wish to produce roast beef, thousands of cooks have still to perform a work, which dozens could do far better under a system of centralization.

I need not enter into the complaints about servants; nor is it necessary to say anything about the other worries of housekeeping, which so absorb the average woman that she has little time left to educate her children, and still less to improve her own mind. The estrangement from the husband, who looks outside for the intellectual intercourse he cannot find at his own fireside, and the whole tragedy which ensues in "home, sweet home," has too often been treated to need discussion here. And yet no reform could be simpler. Even if associated homes should meet with too much opposition, a beginning ought to be made with associated cooking, washing, and housecleaning.

The next step would be to build a number of homes without kitchens around a central kitchen, to which a laundry, kindergarten, swimming bath, social hall, etc., might be added, as means permit. Servants could be kept in the central building who work by the hour for the single houses on business principles. They would be as independent as factory girls, which, combined with better pay, might induce thousands to devote their time to this kind of domestic work in preference.

All this and much more could be done, and the system would afford a good deal more enjoyment to the members, and at less cost than the present wasteful practice; but it will be the last reform we shall get. We shall perhaps have the socialist commonwealth before we have a general adoption of the Associated Home system, before our millions of galley slaves, called housewives—with or without the scourge of underslaves—will be relieved from their wearisome drudgery.

I have reserved for final consideration one class of co-operative schemes, which deserves a history of its own, much more extended than the numerous records given us by Nordhoff, Semmler, Noyes and others. It is the socialistic or communistic settlement, especially well represented in the United States where a number, mostly on a religious basis, already exist. It

would take more space than the plan of this book affords, to give details. These settlements are on the garden-city plan, in so far that they hold their land in common, while some of them also embody the co-operative household. They go beyond these limits by carrying on co-operative production and distribution in common. They try to show on a small scale that socialism, or even communism, can be made successful on a large scale by whole commonwealths. Most of them wish to be looked at as object lessons. It would not be fair to socialism and communism if we accepted them as such; because conditions on a small scale are altogether too unfavorable to admit of sound judgment on the feasibility of the scheme when tried by a whole nation. Labor has become so diversified that it needs more workers than the most successful of these schemes ever possessed, to produce, under the best conditions, many of our necessities. Of course none of the settlements ever produced more than a few specialties, and had to sell some of these to provide other kinds of goods not made in the circle. This alone has made it impossible to show the enormous saving of labor and waste attainable by mutual production and exchange. However, even without the advantage of such economy there ought to be no reason why a number of people working on free land might not succeed in producing in common most necessities. To a certain extent this has been accomplished where religious enthusiasm formed the cement, which kept the colonists together and subordinated them to a capable management. In all other cases failure had been the final result; mostly in consequence of the personal element. My participation in one of the wellknown American attempts of this class: the Topolobampo Colony, Sinaloa, Mexico, in the early nineties, decided me to refrain from any future work in this direction. It is too late for object lessons when all hands are needed on deck to bring the ship of state through the perilous tides which are surrounding it on all sides. However, I recommend to those enthusiasts, whom the failures do not frighten off, the constitution which, worked out by me for Topolobampo at the time of its crisis, was unanimously adopted in its main features, but never had a chance of being tested. It provided for common land ownership and common trading for exchange notes, the money of the colony, but for united production only in cases where private enterprise proved extortionate. In fact it meant to show on a small scale the feasibility of the reforms, which this book proposes. Perhaps it was fortunate that the scheme was never tested, for its failure under such conditions might have been used against reforms, which, after all, do not aspire to success unless carried out on a national scale.