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MONETARY RECONSTRUCTION

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Though the many different ideas regarding the character of the present crisis and the way in which it should be remedied make an impression of almost hopeless confusion, we can distinguish two fundamental views which are absolutely incompatible with one another, and to which we should in the first place adopt an attitude.

According to the one of these diametrically opposite views, a deflation, that is, a continuous lowering of the general level of commodity prices accompanied by a corresponding rise in the value of the monetary unit, is an extremely dangerous process, which is ultimately bound to lead to the complete ruin of the whole world economy. Those who take such a view have naturally forewarned people against such a process of deflation, have combated it when it has nevertheless commenced, and, when it has proceeded so far as it has now done, are endeavouring to remedy its disastrous effects by a counter-movement, aiming at the restoration of the price-level, if not exactly to the starting-point, at any rate to a level considerably above that which has resulted from the process. To this end it is evidently necessary to take measures which otherwise are not normal, and it may be needful to intervene actively in order artificially to induce a rise in the level of commodity prices by increasing the supply of means of payment.

Those who hold the opposite view will not recognize at all that any process of deflation has taken place. They regard the fall in the level of commodity prices as merely the result of economic factors, are totally unable to conceive the fall of prices as a monetary phenomenon, refuse to recognize that the unit in which commodity prices are expressed has changed at all, and regard any attempt at a restoration of a higher price-level as unsound. When commodity prices fall and the equilibrium of the social economy is thereby disturbed, those who cherish these notions have no other remedy to suggest for the restoration of the equilibrium than the reduction of all costs in the same proportion.

They entirely ignore the difficulties of such "adjustment", and insist on enforcing it at any cost. They do not see that the pressure which has to be exerted for this purpose will lead to a further depression of commodity prices, so that in this way equilibrium can never be restored. They do not trouble about the social strife which a forced reduction of wages is bound to provoke, and they demand that even existing debts shall be adjusted to the falling price-level, without realizing what a complete economic ruin is bound to follow on such spread of insolvency.

The notion that the fall of prices is a natural process to which we must resignedly submit has been proclaimed during the whole period in which the deflation has been proceeding, those who proclaim it having learnt nothing from the terrible consequences which the deflation has entailed. Not even such a catastrophe as the collapse of the international gold standard system in September 1931 could bring them to their senses. Deflationism recognizes no responsibility for the havoc it has caused, and even in the United States it has continued to the very last, whilst a general collapse has been impending, to clamour for a further "adjustment" to the falling commodity prices.