

Joseph Schumpeter
Konjunkturzyklen und Wirtschaftspolitik
Die niederländischen Vorlesungen vom März 1925¹

Übertragung der niederländischen Vortragsberichte ins Englische:

Erwin Dekker & Max Ankum

Vorbericht

Vom 23. - 27. 3.1925 hielt Schumpeter in Rotterdam, Amsterdam und Den Haag Fachvorträge, über die niederländische Zeitungen ausführlich berichtet haben. Wir veröffentlichen die dankenswerterweise von Erwin Dekker und Max Ankum in Englische übertragenen Vortragsberichte, um sie der Schumpeterforschung und der wissenschaftsgeschichtlichen Recherche zugänglich zu machen.

Schumpeter wird hier zwar als Bankpräsident angesprochen. Das ist mit Blick auf seine wirtschaftspolitischen Erfahrungen sicher richtig. Tatsächlich hatte die österreichische Presse aber im Februar 1925 den baldigen Rücktritt Schumpeters als Präsident der Biedermann Bank AG angekündigt, der dann im Resultat der wirtschaftlichen Schwierigkeiten der Bank wie auch persönlicher finanzieller Probleme ihres Präsidenten im Mai 1925 formell vollzogen wurde. Die hier berichteten Vorträge fanden also gerade in einer Zeit statt, in der Schumpeter seine berufliche Rückkehr in das akademische Leben vorbereiten musste.²

Schumpeter Archiv

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¹ Ich danke Richard Sturn und dem *Grazer Schumpeter Centre* für die freundliche Unterstützung des Projektes.

² Zu Schumpeters Schicksal als Bankpräsident und besonders zu seinen unternehmerischen Initiativen in der „Bankzeit“ haben Michael Peneder und Andreas Resch 2021 die erste ausführliche Darstellung und Analyse vorgelegt. Vgl. hierzu besonders Part III in: Diess.: *Schumpeter's Venture Money*. Oxford: University Press, 2021.

De Maasbode, Ochtendblad, 23. 3. 1925

PROF. SCHUMPETER IN THE NETHERLANDS

HIS SCIENTIFIC IMPACT

AN INTERVIEW ON THE COMMON ECONOMIC SITUATION AND THE REINSTITUTION OF THE GOLD STANDARD

On invitation of the Committee for Study Representation (*Commissie voor studievertegenwoordiging*) at the Dutch Business School in Rotterdam (*Nederlandsche Handelshoogeschool in Rotterdam*) and the trade-faculty-association from Amsterdam (*Amsterdamsche Handelsfaculteitsvereniging*), the well-known economist, Prof. Dr. Jos. Schumpeter, will give three lectures in our country these days on the economic business cycle, monetary and banking issues. Prof. Schumpeter is one of the most significant figures among the younger Austrian theorists. As a sharp thinker, brilliant writer and excellent orator, he soon attracted public attention.

At the age of barely twenty-five he published his first main work “*Das Wesen und der Hauptinhalt, der Theoretischen Nationalökonomie*” and a year later was appointed professor at the German University in Cernowitz. A year later, in 1903 he moved to Graz. In 1912, Schumpeter published the “*Theorie der Wirtschaftlichen Entwicklung*”.

We find the development of the main lines of his economic system in the previously mentioned works. Generally basing himself on marginal utility theorists, especially von Wieser and Walras, he nevertheless provided new elements for the explanation of economic phenomena.

A distinguishing characteristic of his system is the sharp separation between statics and dynamics, a separation which, although already made by various American writers (e.g. J. B. Clark), was still virtually unknown in the German literature and had never been implemented so consistently on the American side of the ocean.

Central in his *Hauptinhalt* is the problem of equilibrium, whose significance for practical purposes — of which there are according to the author, only a few — are for science fundamental. The most important positive result that Schumpeter believes to have achieved in this work is the proof of the practical solubility of the *Zurechnungsproblem* [(the problem of imputation)], the possibility of inferring the value of the means of production from the value of consumer goods. It is important that he replaces the category of cause and effect with the concept of function, shifting the focus of the so-called marginal utility to the value function. By showing that the value function of the means of production can be deduced from that of consumer goods, he believes that he has provided the key to the solution of the *Zurechnungs-* and therefore also to the income problem.

However, unlike some American economists (like Clark), Schumpeter emphasizes that this does not prove anything either for or against the fairness of the existing income distributions. “... “.....[für] ein moralisches Werturteil ... [müssten] ganz andere Momente maßgebend [sein], als die der produktiven Leistung Man müsste dabei im Auge behalten, daß ja die produktive Leistung einens Produktionsfaktors noch nicht die Zuweisung seines ganzen Ertrages an seinen **Besitzer** rechtfertigt, daß ferner vor allem andern wirkliches **Notleiden** eines Teiles der Wirtschaftssubjekte

vermieden werden muss, ganz ohne Rücksicht auf den Wert des Produktionsmittels, über das sie verfügen ... “³.

Schumpeter’s position is a necessary consequence of the only formal meaning which he attaches to the maximum theorem.

The most important conclusion that Schumpeter reaches in his *Wesen und Hauptinhalt* is that many phenomena cannot be explained statically, specifically **that capital interest rates are a dynamic phenomenon** which would be absent in a static society.

In the “*Theorie der Wirtschaftlichen Entwicklung*” Schumpeter describes the typical economic development phenomena, their causes and consequences.

In this development, Schumpeter assigns a special type of person a primary place, namely the **entrepreneur**. It is the entrepreneur who not only sees combinations for new production, but also manages to implement them in spite of the resistance of the static, hedonism preferring masses. The problem of the business cycle culminates therefore, for Schumpeter in the problem of the relationship between the leader and masses. The entrepreneur is enabled to implement the new combinations for production because of available credit, and new production combinations are paired with the creation of new purchasing power.

The capital interest rate is a Compensation for the provided purchasing power, and it is paid from entrepreneurial profits. As a result, capital interest should disappear with the entrepreneurial profit in a stationary society.

Through the above theories, Schumpeter came into conflict with the views of the leading figures of the older Austrian school, in particular with Böhm-Bawerk. The polemics resulting of this conflict are among the most interesting camp battles within the economic literature in decades.

But just like we have only been able to describe Schumpeter's basic ideas very vaguely, the scope of this article does not allow us to elaborate on these polemics.

Schumpeter's third main work which must be mentioned is the brilliant “*article*” on ***Dogmen – und Methodengeschichte*** in the *Grundriss der Sozialökonomik*, in which the writer demonstrates a fabulous knowledge of literature and an unbridled ability to put himself in the shoes of others. This gift, [to reason as another person would,] is perhaps even more strongly expressed in the numerous biographies that have appeared in various economic journals. Take for instance his articles about Marie Esprit Léon Walras, Eugen von Böhm-Bawerk and Carl Menger in the *Austrian Zeitschrift der Volkswirtschaft*.⁴

In more recent years, Schumpeter also became more concerned with sociological issues. For, he did not remain a purely theoretical scholar, but for a while, he also took an active part in politics. In 1919 he was minister of finance within the Austrian ministry. His article on “*Sozialistische Möglichkeiten von Heute*” also dates from that time.

The conclusion he reached in that article can be summarized in the following statement: “*Jeder Versuch von der Politik freier Privatwirtschaft abzuweichen, muß zu wirtschaftlichen, jeder Versuch mit Sozialisierung heute Ernst zu machen, außerdem noch zu politischen Niederlagen führen*”⁵. Real world experience has shown that his diagnosis was correct.

³ Anmerkung des Herausgebers: Joseph Schumpeter: Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie. Berlin 1908, S. 245/246

⁴ Anmerkung des Herausgebers: Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung

⁵ Anmerkung des Herausgebers: Joseph Schumpeter: Sozialistische Möglichkeiten von heute. In: Archiv für Sozialwissenschaft und Sozialpolitik. Bd. 48 (1920/1921), S. 358

Of his numerous journal articles, some of which that have appeared partly in book form, we would like to especially mention here:

Das Rentenprinzip in der Verteilungslehre, 1907; Ueber das Wesen der Wirtschaftskrisen 1910; Vergangenheit und Zukunft der Sozialwissenschaft 1915; Die Krise des Steuerstaates; Zu Sozialogie des Imperialismus 1919; Sozialprodukt und Rechenpfennig.

THE INVERVIEW

Recently we visited Prof. Jas. Schumpeter at *Hotel Paulez* in The Hague, who received us with a courtesy which almost seems like innate nature to every Viennese, and he declared himself willing to express his opinion on some current questions. We started our conversation about the general economic situation. The opinion of Prof. Schumpeter, a renowned theorist of the business cycle, who is also in close contact with practical experience through his current position as President of the *Biedermann Bank*, must be given special weight.

The situation in general, prof. Schumpeter said, currently looks much more hopeful than it has been in years, and all signs point to the fact that, unless disturbing influences are again exerted, we are in for better times. However, people seem to be waiting to make the same mistake that is often made in England, which is to consider the current general situation [within a post-war economy] on the basis of the **normal** business cycle and on the basis of normal monetary and fiscal policy. External influences, in particular the disturbances resulting from the world war, have completely overshadowed and dominated economic development in recent years. Large markets such as Russia have suddenly disappeared, while the problem of inter-allied debts, dangers of war, etc., exerted a constant pressure on economic life. Under these circumstances, measures of monetary and fiscal policy could have only a very limited impact. Indeed, the ideas of monetary and fiscal policy hardly had any effect. It is therefore very gratifying that the solution to the German question⁶ is now well under way and the problem of interallied debts is also beginning to become clearer. In addition, within the general economic situation there has been a visible improvement almost everywhere and there has been a return to normal [(peaceful)] relations [(between formerly warring countries)]. Thus, production is increasing again (in England the value of industrial production increased from £304 million in 1913 to £325 million in 1924) and private savings are beginning to accumulate again. In addition, the increase in prices of agricultural products during the previous year greatly benefited economic life in the United States.

1924 was a crisis year for Austria. After the stabilization of the Austrian Crown in 1922, a *hausse* [(economic boom)] occurred in the capital goods market, which resulted in an influx of foreign capital and the market was stimulated by this foreign capital. In the beginning of 1924, a financial crisis occurred as a result of the withdrawal of these foreign capitals. This financial crisis later turned into an industrial crisis. The consequences [for Austria and her people] of the fact that the budgetary balance in 1923 was only achieved by increasing revenues and not by

⁶ Reichspräsident Friedrich Ebert war am 28. Februar 1925 überraschend gestorben. Am 9. März hatten sich die Parteien im Reichstag auf den 29. März 1925 als Wahltag und den 26. April als eventuell erforderlichen 2. Wahltag verständigt.

reducing expenditure, is that both the state and the people had lived significantly beyond their means, and they did so by eating into the capital stock.

Now, however, a turning point has come in Austria, as is clear, among other things, by the increase in production, in particular production of iron and lumber, and the increase in saving deposits. Bank loans have been significantly reduced and the exchange portfolio of the Austrian National Bank has been reduced by about half. Furthermore, the speculative situation has recently become healthier, losses have been written off and the process of economic cleansing is almost complete. Although the official interest rate (of 13%) is still exceedingly high, a minor reduction of this rate in the near future seems likely.

The pre-conditions for an upward economic movement are therefore in place and will be stimulated by substantial foreign capital (estimated at about £100,000,000 in total) which will be made available to economic life of people in Austria in 1925 and 1926. The effect of this foreign capital will be particularly great, even when these credits would be mainly granted to one branch of industry, namely the mining and iron industries. In the coming years, a new *hausse*-era in Austria can undoubtedly be expected.

All this does not alter the fact that the fundamental problems of the Austrian “*Wirtschaft*” are still unresolved.

The cost of the state apparatus is still too great, and the general standard of living is still too high. It would undoubtedly be in the interests of all current states, which used to belong to the Austrian monarchy [(before the first world war)], to join together in a union safeguarding free trade and the free movement of people. Prof. Schumpeter feared, however, that political factors would make this union impossible for the time being.

We then asked for Professor Schumpeter's opinion about the desirability of returning to the gold standard.

Without being among those dogmatists who consider gold to be a necessary element for any monetary system, the professor observed that he nevertheless believes that in all states which have experienced a period of significant inflation, a return to the gold standard is right choice. Austria, with its gold exchange system, has in practice already returned to the gold standard. For England, the speaker considered a return to gold, for the time being, desirable.

A “*managed currency*” would necessitate international conventions, and the times are certainly not yet ripe for that. However, the speaker considered it likely that, if gold production continues to increase, one state after another will have to abolish the free minting of gold as was done in the seventies and eighties in relation to the minting of silver.

Finally, we asked Professor Schumpeter to what extent, in his opinion, economic development was possible at a constant price level. A distinction must be made here, he observed, between price changes resulting from increasing gold production and those which can be traced back to normal business cycle developments. The former, of course, are certainly harmful; the second, however, are different. By suddenly restricting monetary policy measures during a period of economic boom and rising prices, one would indeed create an important brake on economic development and by slowing down development, cool and slow down the busts of the business cycle.

Concerning the question of unemployment, Prof. Schumpeter, finds to a large extent the greater causes of unemployment to be found in the special war conditions. Under the effects of normal business cyclical unemployment, unemployment insurance is the most appropriate means to tackle this issue.

PROF. SCHUMPETER IN THE NETHERLANDS LECTURE ON PROSPERITY AND DEPRESSION

Yesterday afternoon Prof. Schumpeter gave a lecture on prosperity and depression in the auditorium of the Dutch Business-school (*Nederlandse Handelshoogeschool*).

Since Prof. Schumpeter has promised us a more elaborate article on the same subject, we can suffice with a brief summary of what has been said.

The speaker began by declaring that he had accepted the invitation of the Association for Study Interests (*Vereeniging voor Studiebelangen*) with great joy. According to Prof. Schumpeter, it would be good to start with an introduction of an overview of old crisis theories, especially since crisis theory can be regarded as the touchstone⁷ of any economic system. In this context, the speaker points to Bergmann's book on the history of crisis theories.

Of particular importance, however, for these theories is the result which the speaker now wishes to put forward, namely that a crisis is not a phenomenon brought into economic life from the outside, but that crises necessarily result from the capitalist production process. Especially since the actual evidence to prove this has never fully succeeded, this has been a great discovery. This discovery runs contrary to established views, such as those defended by economists such as Böhm-Bawerk, that the economic machinery would in principle proceed without malfunctions.

Of great importance is the separation between the actual phenomenon and the external appearances of crises.

The second step is formed in the recognition of the steady shifts between depression and prosperity.

The third step is expressed in the saying: *La cause unique de la dépression c' est la prospérité*. Depressions are periods of absorption and re-arrangement within the economic organism in reaction to what was brought forth during the periods of economic flourishing.

Fourth comes the practical considerations of the businessman, who was already trying to form a general understanding of the course of the economic business cycle. Here, one finds the problem of economic forecasting. Although the relative value of economic forecasting is limited, because political and social factors might have unexpected effects and because there are special conditions relevant for each economic industry, the businessman has practically discovered that there is such a thing as an "*allgemeine Wirtschaftslage*" [(a general economic course of things)].

The economy is not a conglomerate of layers, although throughout the whole of economic life one heartbeat continues with a particular pulsing movement.⁸ Science came to this result through different paths of inquiry. The "discovery" of a general economic movement, first gained traction in the United States 20 years ago, where it led to attempts to arrive at an index of such a general economic situation. As a result of such inquiries, the speaker points to the

⁷ Translators note: Literally test stone, which were used to test if gold or silver-coinage was real or fake by the sound the metal made when dropped on the stone.

⁸ Translators note: The article literally refers to a 'peculiar shocking movement,' which should probably be regarded as an incorrect formulation, because Schumpeter wants to emphasize the regularity.

publications of the Bureau of National Research in America, publications of the London and Cambridge Economic Service in England, and publications from the *Die Wirtschafts-Kurve* in Germany. The first publications, however, were attributed to Babson, who is still lauded for his work in America, although he could at the start of his career not be exonerated of being a bit of a charlatan.

The speaker then goes on to elaborate on the economic forecast of the boom-and-busts of the business cycle, but he points out that he is only talking about the economic busts as we knew them before 1913, pointing to the busts in: 1802, 1815, 1825, 1830, 1837, 1847, 1857, 1864-7, 1873, 1882, 1890, 1900 and 1907. The present crisis is an after-effect of the war and will therefore be treated separately in the second lecture.

The speaker then asks the question, on the basis of which indices a cyclical [(economic)] forecast is possible, not *sub specie aeternitatis*, but one of immediate relevance to reality.

He provides 5 groups for this:

- I. Indices for both the banking and stock exchange: the central bank interest rate, and its relationship to the commercial interest rate, the balance of the central bank, the focus being, as far as gold coverage is concerned, on the balance sheets of other banks, and also on exchange books and deposits, exchange rates, balance of payments, technical stock market prices.
- II. General indices: the general price index numbers, the unemployment rate, net railway revenues, pollution, bankruptcies, foreign trade, clearing, product statistics.
- III. The situation in some key industries: iron, steel, coal, harvest figures, construction.
- IV. The situation in the leading industry of a country.
- V. The situation in the industry, which became prominent during the previous boom period.

The speaker then comes to the causal relationship between periods in economic life.

To this end, we must first ask ourselves the question: What causes depression? Economic depressions are caused by 2 circumstances:

1. A rising supply of goods combined with 2, a decrease in purchasing power, which means that the price level must fall.

The significant monetary loans granted during a [(prosperous)] boom period must be repaid over time. If loans are not repaid, they can be withdrawn early. Before this money flows back [(to the original lender)] at the end of the production process, the amount of money in circulation is reduced, or if one prefers, the monetary velocity is decreased, after which a gradual fall in prices must occur. However, once the monetary velocity is decreased, people anticipate a further decline in prices and the result is a sudden price drop.

How does one come back to a new period of flourishing after a depression? One could point to the fact that the larger sums of money are granted when more generous loans are granted again, but this is not essential. For every new economic growth period, a special new cause is needed, a special stimulus so to speak. In 1894 the impetus was specifically given by the new discoveries and possibilities in the electrical and chemical industry in Germany.

One cannot explain the *hausse* or boom period from the depression and the depression from the boom period, because then one has explained a *perpetuum mobile*, which is not possible. Every upward economic movement means something new, something different, and not an increase [in economic prosperity,] just an increase in economic intensity. There are new elements

in economic life, which compete with the old and try to displace the old. It takes a special type of person, able to implement a new mode of production or combination thereof, which was already known, but was not dared to be implemented, because of the accompanying difficulties. The difficulty of implementation is also the cause why new production factors or combinations thereof are not increased at a constant rate. If this was the case, there could be no depression and no sudden period of prosperity. People wait with implementing the new, for *the man* who dares to innovate, then all follow.

That is why it is incorrect what Hawtrey in his *Monetary Reconstruction* and Keynes believe that a crisis is a purely monetary phenomenon. By completely removing the effects of the policy on interest rates, they confuse cause and effect. It would, of course, be possible to prevent the boom period by setting up the interest rate in a particular manner, but then much good is lost as well. One could also combat the depression with credits, as Hawtrey says, but then one also keeps non-viable companies artificially alive, and one then hinders the remedial effect of the depression. And on the question of unemployment? Unemployment is currently significant, but in a crisis such as before 1913 it was not significant, and unemployment can [(during a non-war crisis)] be combated very well by insurance.

With this speaker ended his first lecture, after which a loud applause was received. After a short break, some discussion followed.

Business Cycle, Credit and Banking Policy

The second reading of Prof. Schumpeter

One of our reporters in Rotterdam reports:

On Tuesday afternoon when prof. Schumpeter from Vienna spoke again, the auditorium of the Dutch Business-school (*Nederlandsche Handelshoogeschool*) was filled to the brim. He continued with his previous talk from Monday, a lecture about *Konjunktur, Kredit und Bankpolitik*.⁹

In the introduction to his second lecture, Prof. Schumpeter argued that the monetary situation is not just a matter of inflation. The whole monetary system is in a state of disorder, a disorder, which would also be noticeable if different states had not encouraged inflation through their monetary policies. He indicates that his assessment can be justified as follows.

The war changed all production. Traditional markets have shrunk, and the other new markets expanded significantly.

Productive consumption, which in turn leads to production, was restricted. This “*Umstellung*” happened in a wasteful way. A lot of money was spent with utter disregard for the actual costs.

An entire revolution in the mutual trade relations took place. The speaker points to the war loans. The gold movement, which in normal times is corrected by the trade balance and changes in the exchange rate, did no longer happen. Debts piled up while previous debts were not paid off.

These circumstances inevitably disturbed the international gold market and the monetary position of the world. They created a state of gold-anemia.

Now, in view of this, some say: see what an inadequate system the gold system, which we had during peace-times, was!

If this person has nothing else to add, then the speaker does consider this criticism too bad.

All things are designed for normal relations. A system suitable for normal trade in goods was not designed to transfer such amounts of wealth. Wealth transfers so large that the confiscations by the Bolsheviks in Russia seem irrelevant.

It was not difficult to create the war-time industry. The economic demands of the state, with significant purchasing power and demanding much, were happily met by an industry which had a half-patriotic character.

Rebuilding the peace-time industry was much more difficult because it did not have the benefits of the war-time industry and, contrary to the movement from peace- to war-time industry, all former connections were lost.

Everywhere the process of the “*Rückstellung*” of the economy can be observed. A situation arises which no one controls and from which the level of unemployment in England can also be explained. War reparations and loans to dislocated and impoverished countries play a role in this.

⁹ Translators note: Where German concepts/words were left untranslated we have done the same.

The speaker is now approaching the concept of inflation, which should be understood as the distortion of the correspondence between the movement of commodities and money.

In the situation of inflation, different scenarios can be distinguished, as well as different limits, which may or may not be exceeded.

Inflation during a boom-period when more credit and more money is demanded and when prices are rising is completely different from the situation that Austria and Poland have experienced.

In the first case, prices offer a certain resistance and tend to remain at the old level, in the second case, we are dealing with a rapid pace [of increase in the money supply] which outruns the increase in prices. Then the normal relation between price and goods breaks down. No more savings are made, and no more money is available for credit.

That is the situation of war-time-inflation followed by peace-time inflation.

The claim that the circulation-banks [commercial banks] should have stopped this last movement is unconvincing.

As an example, that it is difficult to determine when the movement of war-time-inflation followed by peace-time inflation turns into a crisis, the speaker cites the image of Mac Kenna, who compared this situation to a man who walks up a flight of stairs in the dark and falls down because, when he has reached the final step, he wants to continue with the upward movement.

This crisis has been predicted in America by Mr. Babsom, a man whose comments, incidentally, should be taken with a grain of salt. He gave the advice: sell your stuff and go to a seaside resort.

This peace-time crisis cannot be classified as an ordinary crisis within the movement of the business cycle because it does not fit into the causal relationship crisis have in the business cycle.

The speaker continues to argue that the aim of returning to the conditions of the past can be observed everywhere. The goal has not yet been achieved, but we are moving in the right direction.

Deflationary policies can intensify the economic situation. In England, all joints of the social building would have creaked if one had tried to follow a deflationary policy. Under Baldwin and Bonar Law, England reverted from tendencies of in that direction, but deflationary policies had been present for a while, despite all the claims to the contrary. The concept of deflation also covers quite different phenomena. In assessing the situation, it is relevant to ask whether the increase in money has already revolutionized the economic situation.

In Austria, for example, it would have been possible at one point to counter the threat of inflation by withdrawing and destroying banknotes.

In Czechoslovakia, deflationary policies, however, have led to nothing but dissatisfaction among all sections of the population as well as a long-lasting crisis.

In this area there are two bones of contention; 1. The role that gold plays [in the economy], 2. The role of credit in the periodic changes resulting from the business cycle.

Before the war we were already dissatisfied with gold. Theoretically, we have agreed that gold does not derive its essential value from itself.

Practice has shown that for the years 1890-1913 an increase in the gold stock led to creditors seeing their holdings go down in value.

Several things have happened with gold which have created a difficult situation. In Europe, many countries have become so detached from gold that it will be difficult for them to return to the gold standard.

One difficulty is that the U.S. Federal Reserve Board has up to a 50% gold coverage and the rest of the world has nothing.

How do we find a way out of the inflation that is occurring in Europe?

The Bank of England's gold policy has generally not been a fortunate one. It was dominated by the tendency to maintain prestige and to oppose *disagio*. There was not much practical wisdom in that attitude; very little experience with inflation. For experience with inflation, however, one has to be in Austria, the speaker notes to happy cheers from the audience. In England, inflation became a lingering illness. Had the disease progressed faster, everything might have gone much better. Now we have the situation that Canada and South Africa have difficulty placing their loans.

The speaker wants to make another comment about the bank theory as we have known it for years.

The central bank, which has the privilege of issuing banknotes, is the "bankers bank" and the bank of the government.

Such a bank pays particular attention to how the monetary reserves relate to her liabilities. That is the old theory and practice that has guided the Bank of England for 60 years. The concern for the stability of exchange rates is one of its functions.

Keynes says that this tactic leads to petrification and that more attention should be paid to the price level than to the level of exchange rates. The central bank must be able, where necessary, to act encouragingly or inhibitingly, through interest rate policies.

The difference between these two views is not as great as it seems.

In a period of economic prosperity, the interest rates will rise and in the event of a downward economic movement, interest rates will fall.

This banking policy is only designed for normal times and tolerates only minor deviations. In wartime, the international-financial market cannot be influenced by such means. The interest policy of the business cycle: increase interest to brake, lower interest to encourage an upward movement can only correct for small deviations. It does not provide support on which one can rely [in difficult times].

It is not correct to believe that interest policy can be a therapy for crises, the speaker claims, referring to his reading on Monday, in which he argued that a crisis is not only a monetary matter, but that it is a necessity in the capitalist mode of production.

No reduction in interest rates can cause unemployment to fall in England. Interest rate policy cannot change the pulse of economic life.

Once the reconstruction of Europe — including Russia — has been completed, an attempt can be made to use the interest rate in service of stabilizing relationships. Even then, however, one should not expect too much from interest rate policies. Finally, the speaker argues that economic development would be slower if we did not have the passing inflation after a period of economic prosperity. Inflation and depression also have their function. They indicate that the stock of goods is increasing.

If we did not have inflation and depression, there should be an authority that told us which things should and which should not be produced for the benefit of people. In 1919 we flourished; in 1920 crisis, in 1921 and 1922 depression. In 1923 and 1924 the “*Aufschwung*” that was supposed to come was not forthcoming due to the policy of the Federal Reserve Boards. It will therefore also fail to materialize now, although in a period of prosperity the various affairs of humanity are best settled.

In addition to preventing an upward economic movement, the policy of the Federal Reserve Boards may also have prevented crises, but, the speaker asks, if our forefathers had done so, would they have bettered the world and moved it forward?

Crises that arise from the economy itself must not be prevented. They are a necessity in our current system of production.

The speaker was loudly applauded after finishing his lecture. Again, an opportunity to ask questions followed.

PROF. SCHUMPETER IN AMSTERDAM.

A lecture about Economic “Depression and Prosperity”

Last night, Professor Joseph Schumpeter held a lecture on the subject of “*Depression und Prosperity*” in the auditorium of the University of Amsterdam for the study association of the Faculty of Business (*studievereeniging van de faculteit der handelswetenschappen*) and the Student Club for Sciences of the State (*Studentenclub voor Staatskunde*).

During an introductory reflection, the speaker observed that in our time the normal cyclical waves of the business cycle have been pushed to the background, and have given way to abnormal economic situations.

One of the most striking of these symptoms is the widespread fluctuation of monetary values.

However, the current organization of the financial and fiscal system should not be condemned, only because it could not resist the abnormal pressure caused by the war conditions.

At first glance, a stable price level should be preferable in all respects. Businesses will not suffer the disadvantages of unexpected price fluctuations, nor will social justice be confronted with either creditors or debtors who might be favored at the expense of the other party. However, it might be noted that in normal times, price fluctuations occur, and even have positive effects.

If productivity were to fall in a country, then, adhering to the dogma of price stability, the money supply would also have to be reduced. However, it is socio-economically much more desirable to leave the development of prices unaffected, the high prices will lead to savings, so that one can quickly return to the old level of prosperity.

Moreover, price fluctuations are only a symptom of underlying changes in the economic situation of a country, and it would be irrational to deprive the economic system of the price indicator by artificial manipulations.

To surmise, the speaker cannot agree with the [dogmatic] ideal of a constant price level.

The problem of the stable price level is, by its very nature, divided into two problems:

1. The problem of the fluctuating gold value.
2. That of contraction and expansion of available money for lending during successive cyclical stages of the business cycle.

The speaker emphasizes that he does not want to see, in the latter case a positive, independent cause of the movement of the business cycle, but that he instead regards it as a necessary condition of cyclical movements.

With regard to the problem of the value of gold, the speaker believes that these fluctuations are caused by the fact that the production changes of gold are not particularly important. However, in some periods such as from 1893-1913, a price level increase was caused by gold production and this inspired Prof. Irving Fisher of Yale University to work on the project of the “compensated dollar”: however, the problem in this respect lies in the accumulation of gold in certain creditor countries.

Be that as it may, the controversy has led to ample debates, and the well-known English monetary politician Keynes, after many understandable changes in opinion, has concluded that the goal must be to decouple the circulation of money from gold. However, this would lead to

many other difficulties. Apart from the fact that the regulation of the money circulation by a central government institution would not be a simple matter, one would be faced with another instability, namely that of exchange rates. In any case, gold has the merit of detaching the creation of money from political arbitrariness.

Concerning the problem of the cyclical movements of the business cycle, the speaker expressed his opinion that the typical attribute of the boom period in the cycle is not: a varied activity of business as a whole, this is only an outgrowth. The typical cause of the boom period is the introduction of substantial new production processes, which deviate from the previously trodden paths in society.

In business history, first of all, the development of the railway system can be identified as a cause for a crisis, for the first time in 1857, for the last time in 1907 during the American crisis. Another push for a series of waves of the business cycle came from the rise of the electric and chemical industry in the nineties, especially in Germany.

If one examines how this process could have taken place, it immediately becomes clear that the condition of this has always been the credits banks provided: and not credit provided by the conservative deposit banks.

The explanation of the boom-phenomenon, given this relation, is obvious. The *ad hoc* creation of an upward movement in the business cycle is caused by the increased money supply, while the supply of goods did not immediately increase. This temporary divergence between money and goods causes prices to rise.

On the other hand, during a depression, the results of the earlier expansion of production, more consumer goods, are brought to market, while the circulation of money shrinks because of the repayment of loans.

The speaker then examines what the task of the central bank is in this process. Frequently contrasted are, the former ideal, namely the maintenance of the convertibility of the circulation of money for the purpose of stable exchange rates and the present ideal, the regulation of economic life, in order to keep the price level stable. The speaker believes, however, that the old policy, if properly implemented, already implies the latter ideal of the regulation of economic life. This means that the small price fluctuations of the business cycle will remain. But if banking policy has made these cycles possible, it has at the same time created the condition for the forced capital formation which has served to develop the railway, electrical and chemical industries. Without the credit policy initiated by the business cycle, development would have slowed down, and the pace of economic development would have slowed down considerably.

Moreover, it must be borne in mind, that the business cycle is not merely a monetary phenomenon: it is a much more complicated interrelationship. Interest rate policy alone will never be sufficient.

If people would want to slow down and dampen the movements of the business cycle, the movements of economic life, they would need to fundamentally change the economic system. They would need an economic rationing institute, which would determine which industries were allowed to develop and which industries will have to remain stationary: this is clearly to big a task to undertake.

The issue of unemployment is also not as influential on the business cycle as one might imagine; due to the post-war conditions, employment has increased compared to the normal states of depression. In addition, some other deeper ways would be available to avoid unemployment.

In conclusion, the speaker believes that it is desirable to stick to the old banking policy and to accept the small price fluctuations, for the sake of the development of economic life.

Lecture Prof. Schumpeter

On the political and economic conditions in Austria

Last night prof. Schumpeter from Vienna held an informal talk about political and economic conditions in Austria for the association “Netherlands-Austria” (*de vereeniging Nederland-Oostenrijk*).

The president of the association, Major General J.F.B. Kalff, warmly welcomed everyone present and was very pleased that this well-known economist would speak about the economic and financial conditions of the present.

Prof. Schumpeter proposed to deal with some facts, which might be well-known, but which should be considered in more detail. The economic stabilization in Austria, has been a great success and was necessary to restore the value of money. During the old monarchy, the representation of the country to the outside world was entirely done by a special class of people. The common people themselves did not interfere and felt no responsibility for political relations. It was not necessary for everyone to be especially concerned with the such matters. The Austrian finances used to be run extremely well, but not because of the concern of the general public; very few were familiar with the workings of the system. After all, a few financiers knew how to conscientiously manage the affairs of the nation. The public sometimes criticized and demanded more expenditures, but everything could be left to the ministry and its experts.

The actual bourgeois lacks any political awareness. Austria is a very stable country from a social point of view because it has a strongly organized workers party and a steady class of small and medium-sized landowners, who cultivate their own land. About 80% of the population consists of these small and medium-sized landowners.

Within that agricultural area, there are some industrial centers dotted like little islands; these are the socialist centers. The political position of leaders is rather fixed; every government must consider that the opposition is about as strong as they themselves are. As a result, major political acts are not actually possible. Important dealings are being worked out on paper, but in reality, little actually happens.

The financial system is not that oppressive, although of course the general impoverishment caused by the war must be taken into account. With some figures, the speaker demonstrated this. There is no danger to the *Volkswirtschaft* from the tax institution, or the tax rate. But in recent years, the Austrian trade balance has been negative (passive). This has been offset by the inflow of a lot of foreign capital and the use of credit for consumption purposes. At the end of 1922 the Austrian crown¹⁰ had stabilized, after that a lot of capital flowed into the country, especially with speculative intentions. Short-term capital has actually made big profit. But this foreign money left once the benefits were reaped. Then the increase in the value of the Crown halted, and prices rose.

All states have had a deflationary crisis, especially England, where high unemployment occurred. However, the Austrian population remained surprisingly calm, despite the strong Bolshevik elements.

¹⁰ Translators note: The Austrian currency at the time.

Unemployment was low for most of 1924, but in recent months it has risen alarmingly. Farmers can adapt fairly easily to all kinds of new restrictions, but in Czechoslovakia there are a lot of problems for workers in industry. Austria only has a few industries which are dependent on exports. The export trade was oppressed by the wall of import and export tariffs, with which Austria is surrounded.

Recently, unemployment is falling again; in the near future, a new period of prosperity in economic life is to be expected. However, the companies, which are the backbone of our economic life, need credit because they are unable to purchase the required machines.

Outsiders are almost always given a one side picture of Austrian conditions, due to the peculiar contradictions of the political parties. The current financial measures do not have the general sympathy of the people, because people recognize so little socialist principles in them.

The luxury taxes in Austria are incredibly high, the tax on cars is the highest in the world. Compared to the entire budget, however, the sum of taxes is not that great. A good idea is to try to stabilize the currency at the point where it is now and not to attempt and abolish these taxes. Since the stabilization of the currency, the circulation of banknotes has doubled, which of course has social dangers. It gives the population a feeling of unease.

The future of Austria is by its very nature not only dependent on the state itself, but it is considerably influenced by general European relations. The population has to adapt to the present situation. In the current manner, however, the Central-European problem cannot be solved. The difficulty is created by the fragmentation of nationalities. An overall satisfactory solution to the matter will be hard to find.

In response to a question about the impact of the separation of Austria and Czechoslovakia, Prof Schumpeter believed that this separation is particularly important for industry because Czechoslovakia has coal and brown coal industries. The speaker elaborated extensively on the political relationship between these two states.

He considered it a fortunate phenomenon that agencies in other countries increased the opportunity for sales. A ban on tolls or closer economic ties between the former Austrian states would not be possible since the states each had their own industrial needs.

Several practical difficulties are insurmountable. The speaker attributed the increase in prices in Austria to the overconsumption and use of foreign credit. Compared with before the war, the index funds in Austria have risen even less than in other countries.

The general interest rate, which for industry is of the greatest importance, cannot be influenced by the government. The influx of foreign capital should not be obstructed. The high current interest rate is a major disadvantage, but one cannot arbitrarily influence this; everything must have its time, then competition will do the rest.

The speaker then elaborated on the question of why not more foreign capital is flowing into Austria, given the high interest rates.

To conclude, the President thanked Prof. Schumpeter for his interesting lecture