

# SOLUTION OF THE SOCIAL PROBLEM

## WRITINGS ON FREE CREDIT 1848-1849

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(*Représentant du Peuple*, June 10, 1848)

### ELEMENTARY EXPLANATIONS REGARDING THE BANK OF EXCHANGE.

*What is preventing the resumption of business.*

What prevents business from resuming is not a lack of manpower, for there is a multitude of workers who are only too happy to produce; nor is it an overabundance of products, for there is a multitude of consumers who need clothes, furniture and goods of every kind.

What prevents business from resuming is:

1. That manufacturers, entrepreneurs, producers of all kinds lack money to buy raw materials and pay their workers;
2. This is because consumers do not have money to buy the things they need.

The problem to be solved would therefore be this:

1. To give workers, manufacturers, entrepreneurs and producers the necessary advances to create products;
2. And to facilitate the acquisition of these same products by consumers.

It is this dual result of financing and circulation that the Bank of Exchange aims to achieve.

*The Bank of Exchange as limited partner.*

When an industrial entrepreneur wants to do something, he needs capital to buy his tools for production, his raw materials, and to pay his workers.

If he does not possess this capital himself, he is obliged to turn to a banker or a capitalist, who, under the name of discounter, financier or limited partner, will lend him the necessary sum for his business for a certain period. When business is good, when money is plentiful, the entrepreneur, if he offers sufficient guarantees, can hope to find this capital, but, in all cases, this is by relinquishing the greater part of his profits to his lender. When business is bad, when money is scarce or when he is afraid, the entrepreneur has nothing to expect from the capitalist. He must either work with his own funds or cease working altogether; that is what happens at this moment.

The Bank of Exchange never lacks funds when offered sufficient guarantees, as it can be given real titles to values *produced* or *to be produced*. Moreover, it lends without interest; a generous limited partner, it leaves the general partner all their profit and retains only a commission sufficient to cover administrative costs and bad debts. For everything else, it operates with the

same reserve that a prudent capitalist might; it only advances its capital after having taken all precautions and having fixed a repayment date or amortization schedule for its advances. Finally, it acts like any other lender of funds with this difference: instead of giving cash, it gives its *Exchange Vouchers*.

*The Bank of Exchange, a means of circulation.*

But it is primarily as a means of circulation that the Bank makes its influence felt.

Once the buyer, the manufacturer or even the worker has produced something, thanks to the Bank, that thing is launched almost immediately into circulation.

However, it is important to note here that the Bank of Exchange does not deal with the product itself. The Bank of Exchange has no stores; it does not engage in trade. It leaves it to each individual to place and sell their goods. It only intervenes in the execution of these transactions.

Thus, it is only when the producer has found the placement of their products, when they have a regular and legal order from the buyer, or when they have sold and delivered their products, when there has been a *deal concluded*, finally, it is only that the Bank takes charge of the written order, the delivered and accepted invoice, or the promissory note subscribed by the buyer, and gives in exchange for these various particular values its own *exchange vouchers*, which are current cash received as money by all members, and consequently have a stamp of general circulation.

As we can see, it does nothing other than what all ordinary banks and all discounters do. Only, instead of *money*, it gives its banknotes or *exchange vouchers*.

We can even say here that the Bank of France itself has the same operation when, in exchange for the particular notes that we give to it for discounting or collection, it gives *banknotes* which also only represent the value that we have given to it and which it keeps in its portfolio until maturity.

The only differences between the Bank of Exchange and other banks are these:

The Bank of Exchange offers discounting without *interest*, with only a simple commission.

The Bank of Exchange has unlimited capital and can never say "I have no more funds" to those who present it with a tangible value, since it can always and immediately *create* a representation of that value. The Bank of Exchange has as much capital as it receives in *values*.

Thus, one could say that the Bank *beats* money, on behalf of all those who own something. Or, to make ourselves clearer, we could say:

The Bank of Exchange does for all values what the mint currently does for those who bring it silver cutlery. This silver cutlery, melted down and minted with the Republic's mint mark, becomes a universal value, a currency accepted by all; similarly, the value brought to the Bank of Exchange is immediately converted into a currency minted with the mark of the entire society and consequently acceptable to all its members. The 5-franc coins given in exchange for the silver cutlery have no more value than the silver cutlery itself; they have the same value, only this value is generalized by the national mint mark.

What the mint does for silver or gold, the Bank of Exchange does for every other type of currency. And if there's one thing that should be surprising, it's that this hasn't been done long ago.

*The Bank of Exchange addresses the problem of overloads of products.*

In times of crisis, merchants see their portfolios fill up with values that bankers refuse to discount due to lack of funds. The Bank of Exchange, as we have said, never refuses to discount real and sound securities. Paper bearing two valid signatures is always accepted by it. It always has something to give in exchange, because, as we repeat, its capital is inexhaustible, since it mints money from the securities brought to it.

But the merchants, the producers, are unable even to sell their goods on credit. Sometimes their warehouses are overflowing, and they cannot honor their commitments because they cannot pay their bills, the promissory notes they have issued, or the workers they have employed with goods. Since February, this state of affairs has become the general ill of industry. To remedy this, warehouses were created under the administration and supervision of the State, where merchants could deposit goods and obtain advances. However, everyone knows that these *pawnshops* have been useless for a good reason: the precaution of not having taken the precaution of adding to these warehouses a mint for hundred-sou coins or banknotes with recognized legal tender status.

The same thing happened with these pledges of goods as happened with mortgage pledges, land and houses, railway shares and annuity securities; it is understood that since banks, discount houses, and capitalists had no money to give in exchange for the *receipts* of these warehouse, these kinds of securities remained inert and useless in the hands of the depositors.

From what we have already said about the mechanism of the Bank of Exchange, it is perfectly clear that, by means of this system, this drawback is completely avoided. The Bank of Exchange can always issue its vouchers in exchange for warehouse receipts. It can lend on consignment, as all capitalists can, and it has this advantage over them: since its capital is inexhaustible and costs it nothing, it does not need to limit the credit it extends, and it does not charge its borrowers any interest.

It is understood that in this regard, it must nevertheless be very reserved, even stingy with these kinds of facilities, either so as not to encourage overproduction, or also to protect itself from the losses that are always made on goods when one is forced to sell them at auction. But for this, the experience of warehouses and pawnshops sufficiently indicates the rule to be followed, in order to avoid all losses to the administration.

We do not need to remind you that the Bank of Exchange can do, for any kind of pledge, what we said it would do for receipts of goods on consignment.

It can trade and discount all securities, including mortgage notes, railway shares, annuity coupons, treasury bills, etc. It can also make advances on these kinds of collateral, as well as on savings bank passbooks.

*The Bank of Exchange supports associations.*

We do not intend to rehash all the intricacies of the Bank of Exchange here. Our aim is to briefly outline the main services it is designed to provide to production and circulation. In other articles, we will demonstrate that our Bank project is the first step in the social revolution, and

that it is essential to go through the Bank of Exchange — that is, through *liberty in exchange* — to achieve the organization of labor and the social reconstruction to which we all aspire.

We will simply say in a few words that the various workers' associations would find in the Bank of Exchange that which the various socialist schools have sought in vain: namely, the association of capital and labor. Workers who join forces to create a business will find in the Bank of Exchange capital that will cost them almost nothing, provided that their morality, their ability and their means of execution offer the administration sufficient guarantees.

We have tried everything so far in vain. The combinations that have been proposed cannot prevent the capitalist, by associating with the worker, from living at the latter's expense.

Interest on money, the sharing of profits, always represents a payoff achieved through labor. The true producer must begin by taking the capital's share from their product, and this share is always intended to prevent them from accumulating wealth themselves; often it is so small that, after paying it to the owner, they barely have enough left to live on.

We will, by an example, immediately make the workers understand the difference they will find between the tankers made by the Bank of Exchange and the advances made by the most philanthropic capitalists: this will at the same time be to put on trial this supposed association of capital and labor dreamed of imitating good people.

One or more associated workers borrow 10,000 francs from a capitalist, payable in ten years, on condition of paying interest every year at a rate of 6 percent.

Our workers pay 100 francs in interest for the first year. They are therefore left with only 9400 francs. This continues for subsequent years, so that after 10 years, they have only 4000 francs left of the original sum. Thus, of the 10,000 francs he lent them, the landlord has taken back 6000 francs, and yet he demands that they return 10,000 francs. Therefore, the workers will have returned 10,000 francs instead of the 10,000 they received.

We do not condemn this fact; it is legal, even just in the current order. We are simply saying that with the Bank of Exchange, these same workers, after having paid 6% for 10 years, or 600 francs per year, should only have to repay the Bank 4000 francs, because the Bank does not charge interest and intends to recover the capital it advanced.

If this is not the emancipation of the proletariat, it is at least the prelude to it.