

SOLUTION OF THE SOCIAL PROBLEM
WRITINGS ON FREE CREDIT 1848-1849

DETAILED EXPLANATION
OF THE
BANK OF THE PEOPLE

BY VICTOR CHIPRON AND RAGINEL

THIRD EDITION

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PREAMBLE.

The Bank of the People aims to establish reciprocal and free credit between producers, without the intermediary of capitalists, and to successively eliminate all the surcharges and usury that hinder the free creation, free exchange and free consumption of goods, while simultaneously depriving workers of the greater part of the fruits of their labor.

To achieve this result, the Bank of the People is constituted as a general and limited partnership. The conditions of this company are settled by an act passed before M. Dessaignés, notary in Paris, on January 31, 1849. Citizen P.-J. Proudhon, representative of the people, is the managing director of the Bank of the People.

The capital is five million francs.

The shares are worth five francs. They can be paid for in installments of fifty centimes.

One can be a SHAREHOLDER without being a member; one can be a MEMBER without being a shareholder.

One subscribes as a simple member, without having to make any payment.

All producers, who are the workers and manufacturers of all possible goods, and consumers, from the rentier to the poorest worker, are interested in immediately joining the Society, so that exchanges can take place without using the gold and silver on which interest is paid.

The Society and the offices of the Bank of the People are located in Paris, at 25 rue du Faubourg Saint-Denis.

The name of the company is P.-J. PROUDHON et Co. Operations will begin as soon as 50,000 francs have been paid in shares of 5 francs. The Bank's operations will expand as the number of members increases.

WHAT A BANK IS AND WHAT THE DISCOUNTING INDUSTRY CONSISTS OF.

There are two types of negotiable instruments: the promissory note and the bill of exchange.

The promissory note is the most commonly used; therefore, we will limit ourselves to its description.

A promissory note is a promise to pay the price of an item that has been delivered to you and accepted by you, or of a service rendered to you, after a period specified on the instrument.

Example: I buy 100 francs worth of shoes and agree to pay in ninety days. The shoes and the paid invoice are delivered to me, and I give a note indicating that in ninety days I will pay 100 francs, either to the supplier or to any other person who presents the note to me.

The manufacturer has thus effectively advanced me 100 francs worth of goods. If the manufacturer, pressed for money, now wants to realize the value of this note in cash, he will go to a discounter, that is, a moneylender, and ask him to advance him the amount against the note, for which he guarantees payment by his signature.

The moneylender's entire question is this: Will the note be paid after ninety days, or, as they say, at its maturity? To determine this, there are two things to ascertain:

1. Is the person who made or subscribed to the note solvent?
2. Is the person who received it or presents it for negotiation or sale solvent?

If the information on these two questions is favorable, the moneylender decides to proceed with the transaction and says something like this:

Money is indeed scarce, but the most serious issue is that the person who made this note is unknown, and neither are you. The Bank of France only accepts banknotes with three known signatures; now, mine is insufficient, so I need to find two more. As for me, I would be content with very little, but the others impose very harsh conditions. This is how they manage to charge 2 francs for the advance on these 100 francs, or rather, to only pay 98 francs for the three-month banknote, which means that for the merchandise actually sold, the manufacturer will have received only 98 francs, from which the time lost by him must still be deducted, because it's not always successful on the first try.

Now let us suppose that ten thousand manufacturers were to meet and reason as follows:

If we were to appoint a Commission from among ourselves to examine the solvency of our notes, and if, in place of each of these notes declared good by the Commission, each of us were to receive a note made by all of us, which we would all undertake to repay by delivering merchandise, we would have created a kind of banknote replacing the money we pay so dearly for, and everyone would soon accept our paper, because it would be guaranteed by all of us, ten thousand manufacturers.

This is what the large discounters, that is to say, the Bankers, told themselves the day they founded the Bank of France; However, instead of creating the thing for everyone, they created it for themselves alone, and, since all commercial paper must pass through their hands to reach the large institution that lends money, they charge themselves this kind of rent, which is called interest, whatever price they want, and they have acquired such influence that their general note, which is the Bank Note, had to be granted by the Government to be legal tender among all citizens. They were also clever enough to, by forming a company, have the State declare that they alone would have the right to lend money on a large scale, so that they are, by law, protected from competition. Well! What these gentlemen have done for themselves, the people are called upon to do today for themselves.

CONSTITUTIVE PRINCIPLES OF THE BANK OF THE PEOPLE.

The Bank of the People is founded on simple and clear principles. The first of these principles is that *all raw materials are provided free of charge to man by nature.*

By raw materials, we mean everything created by God, who gave everything. If, due to circumstances too numerous to enumerate here, the land appears to be the private property of certain individuals, the tax levied by the Government on the land's produce is proof that it has not absolutely relinquished its right as collective owner. This truth is even more evident if we examine mines and quarries, and the water and fish that inhabit them. Indeed, the mine or quarry belongs so little to the landowner that he cannot exploit it without the permission of the State, which, in its capacity as the true owner, levies a premium on its exploitation for the benefit of all. The same applies to water and pocket money.

The consequence of the principle we have just stated is that *every product comes from labor.*

Indeed, setting aside the government subsidy, since it is levied for everyone's benefit, what do stone, coal, metal, water or fish cost, if not the labor necessary to extract and transport them to the place of consumption?

The second consequence is that *all capital is unproductive.* You can perform a simple experiment: take a penny and put it in the ground or in some hiding place for as long as you like, and it is certain that when you go back to get it, you will still find only the penny; it will not have produced anything. But one could reply: That penny you hid was not at any risk. If it had been involved in business, it would have contributed to production, and since it would have run the risk of losses, it is only fair that it receive interest representing the risk it

incurred. This is true; we are far from disputing this fact. Therefore, we define the *gratuity of credit* as follows:

The *Bank of the People*, in extending credit or advancing its capital, will only deduct from those to whom it lends the costs of these risks, plus the administrative costs necessary for its operation. In other words, those responsible for managing the Bank, at any level, will only receive compensation for the time they have devoted to it, the profits belonging to all, since everyone is called upon to contribute to its operation.

The Bank of France, on the other hand, discounts approximately 1.5 billion francs worth of banknotes annually, on which it has lost an average of 50,000 francs per year, and whose administrative costs are 600,000 francs, it makes a profit of 5,000,000 francs to cover this figure.

In the Bank of the People, risks will always decrease as workers' associations develop further, because while an individual can ease up by going bankrupt, an association cannot, and since all members are workers, their labor will always pay off beyond the advances they receive. As for administrative costs, they are reduced in the *Bank of the People* to the bare minimum necessary for those who dedicate their time to it, and these costs, which are spread over the total business, will always decrease in proportion to the increase in transactions.

So it can be said that the greatest improvement of the general society corresponds to the lowest figure at which capital can be obtained. This is how we understand the free credit. Now, instead of 8 percent that the worker is obliged to pay the rent of the capital, he will have it from the beginning at 2 percent.

ON THE SOLVENCY OF THE BANK.

Repayment of the *Circulation Vouchers* issued by the *Bank of the People* is only mandatory in goods or services from its members; thus, one can be treated by its doctors in case of illness; one can obtain watches and clocks from its watchmakers; in short, the quantity of goods and services that can be demanded with these *Circulation Vouchers* is equal to that of the goods and services that its members can provide. In the event that the requested goods are not available from its members, the *Bank of the People* may, at its discretion, procure the goods itself or redeem the circulation vouchers in cash, for example:

Suppose that one requests one of those extraordinary things, such as camels. Since camels exist only at the Jardin des Plantes, and it doesn't sell them, the Bank of the People would reply to the individual: You are asking for something that is neither available to me nor to anyone else in France; I am willing, to

satisfy your whim, to act as your agent; I will therefore send, if you authorize me, but at your own risk, a delivery order to Africa, and you will have to pay my invoice with my *Circulation Couchers*; that is all you can demand of me.

Unlike bankers who preferentially lend to speculators, because speculation, while presenting chances of losses, presents chances of gains far greater than honest work, the Bank of the People lends only to workers, rejecting all contact with speculators, who are nothing but fraudsters and hoarders, whom the law condemns by punishing them under Article 419 of the Penal Code. But, one might ask, if for a given commodity there isn't a single member who carries it, how will one obtain it with their circulation voucher?

First, the articles of incorporation of the Bank of the People state that as soon as it is able to do so, it will encourage the opening of independent shops where goods unavailable from its members will be sold; but in the early stages of its organization, as with any new creation, there are always gaps at the beginning, it has reserved the right to redeem its vouchers in cash in cases where it finds itself unable to meet the demands made of it.

One might raise the following objection, since all possibilities must be foreseen: but what if an individual wanted to redeem a large quantity of circulation vouchers for goods that were not sufficiently available on the market?

The Bank would respond that for it the obligation to repay in goods is limited by the quantities that are on the market at the time when the request is made, and that in such a case, it can only offer to act as the individual's agent to supply the said goods to them at their own expense.

WHY THE BANK HAS CAPITAL.

If all the French were to subscribe overnight to the Bank's terms, it would not be necessary for it to have capital; capital only becomes indispensable because it is obliged to start with a limited number of members, which will always increase in order to include the entire population. Then, the capital, which is intended to guarantee the circulation vouchers to non-members and to provide the necessary funds for the establishment of branches that might be lacking at the beginning, will be repaid to the shareholders, and it will operate according to its true principle, which is free credit.

OPERATION OF THE BANK OF THE PEOPLE.

The second principle on which the Bank of the People is founded is that *every credit transaction is resolved into an exchange.*

Everyone knows that there is no exchange except when the values exchanged are equal. We will review all the operations of the Bank of the People and prove that they are simply different forms of exchange.

FIRST OPERATION.

Discounting.

Discounting is the exchange of a representation of the value of goods by *promissory note* for the representation of an equal value in goods by *circulation voucher*; that is to say, the exchange of a special instrument for a general instrument. A jeweler delivered rings and chains worth 1,000 francs to a shopkeeper; the shopkeeper paid with a ninety-day promissory note; the jeweler then goes to the Bank of the People, which gives him circulation vouchers for the amount of the note, deducting 50 centimes per 100 francs, since four times ninety days make a year, and the Bank of the People lends at 2 percent per annum. Therefore, on 1,000 francs, there will only be a 5-franc discount, which, as we have said, represents the risks, plus the administrative costs; the manufacturer will thus receive 995 francs instead of the 980 francs he would have received from the ordinary discounter. If now there were no gold merchants who joined the Bank, one of two things would happen: either it would facilitate the establishment of a new gold merchant who would receive the circulation vouchers, or it would exchange its own vouchers for money drawn from its coffers.

SECOND OPERATION.

Consignment.

Consignment is the temporary exchange of a product for the circulation voucher. Thus, a manufacturer does not want to suffer any downtime in his work, and his product is not subject to the rapid fluctuations of whims. Suppose he makes clogs; for this type of production, downtime is approximately six months per year. Well! He continues to manufacture and, as his products are finished, he deposits them in the warehouses designated by the Bank. The Bank then advances him vouchers, which he can use to purchase wood for making his clogs and some of his labor. Thus, at the time of sale, he will only have to reimburse the Bank for the sums advanced per clog, plus storage fees. The

exchange is therefore only temporary, since the merchandise remains at the disposal of the member who deposited it for an agreed period.

If the member is unable to retrieve his clogs, the Bank of the People, at the end of the agreed period, reserves the right to sell the merchandise at public auction and will remit to the member the difference between the sale price, less expenses, and the sums advanced by the Bank.

THIRD OPERATION.

Overdrafts secured by guarantees.

An overdraft secured by guarantees is the exchange of a promise of labor, guaranteed by third parties, for a voucher.

We say labor, because, as we have demonstrated, all production is, ultimately, nothing but labor.

A market gardener needs glass frames to grow early produce and, unable to obtain the necessary equipment, he wants his competitors to supply products he cannot produce himself. He goes to the Bank, accompanied by two or more other citizens who know him well enough to commit to him. If the guarantors present the Bank of the People with the necessary guarantees, the Bank will advance him vouchers, with which he can obtain frames from the members of the Bank of the People who manufacture them; and he undertakes to repay the Bank in annual installments, according to the terms of a agreement he will enter into with the Bank of the People. In the event that he is unable to pay the annuities, the guarantors are jointly and severally liable, meaning they will have to pay on his behalf.

FOURTH OPERATION.

Advances on Annuities and Mortgages.

An advance on annuities and mortgages is the exchange of the assignment of movable or immovable property for a line of credit in the form of circulation vouchers. For example: a homeowner wants to extend his house; he goes to the Bank of the People and gives it an assignment of his title deed; the Bank takes out a mortgage on it, following the usual formalities, and advances him, up to the amount of credit it has granted, a certain quantity of circulation vouchers; the homeowner carries out the planned construction and repays the Bank of the People in annuities, using the rent he receives from the increase in the value of his house. In the event of non-payment, after two unpaid annuities, the Bank expropriates the homeowner. However, it is a matter of principle for the Bank of the People that the expropriated party has priority over all others, for himself

and his family, in the right of habitation and operation, as manager or tenant farmer, under the conditions established by the Bank of the People.

FIFTH OPERATION.

Payments and Collections.

Payments and collections are the exchange of a service provided by the Bank of the People for the circulation voucher provided by the member. The Bank of the People acts as a cashier for the members; that is to say, if the members so wish, the Bank of the People receives their banknotes, rent receipts, invoices, etc., on their behalf, whether in Paris, in the departments or abroad — in short, everywhere it has correspondents. It is understood that it will be able to provide this service to its members at a much lower cost than they could do it themselves, because of the volume of operations it will have to carry out in the same locations.

SIXTH OPERATION.

Order or Advance of Funds.

The order or advance of funds is the exchange of a promise of labor, guaranteed by the security of success offered by the enterprise, for circulation vouchers.

The cooks' association wishes to open kitchens in all the districts of Paris; but it cannot, because first, six months' rent must be paid in advance; second, stoves, tables, cookware, plates, knives, forks, tablecloths, etc., are needed, and all of this is expensive. Well then! It comes to the Bank of the People, which knows that the associated cooks are hardworking men, and that, cooking good food, they will not lack for business. The Bank of the People advances them circulation vouchers. The cooks will seek out member landlords; the Bank of the People already has a number of them, although it is only just beginning its fundraising campaign. They will rent shops if the locations are suitable; they will go to members who sell tables, stools and stoves. Since they are members, they will prefer to deal with associations, and they will be able to do so for almost all their equipment. What they cannot obtain this way, they will get from non-members; and, through these constant interactions, the division that exists between members and non-members will disappear; they will still maintain their opinions, but they will no longer be enemies as they are today. If, at the beginning, they cannot obtain meat and vegetables in exchange for vouchers, the advance that the Bank of the People will give them in cash will be limited to one or two days' worth of consumption. Moreover, food products are those that

the Bank will strive to make available to its members as soon as possible in exchange for circulation vouchers.

SEVENTH OPERATION.

Organization of savings, relief and retirement funds, consignments and deposit.

The organization of savings, relief, and retirement funds, consignment and deposit, is the exchange of a security guarantee for the capital deposited, against the Bank's right to use the sums deposited with it as collateral for its issues and discounts.

In the past, people had the simplicity, not to say the stupidity, to believe that the savings bank, which was not supposed to speculate with the funds deposited with it, could pay interest; poor fools that we were! It's still the story of the buried 5-franc coin, with this difference, that the royalists found it quite ridiculous to leave it lying there, and if we were paid the interest, our capital would disappear. It is true that the Republic, in order to repair as much as possible the damage done to the people by the monarchy, has made titles of annuities to the depositors of the savings bank; but unfortunately for the depositors, these securities, unless the financial system changes, will soon be worthless, because the State, being in the position of a merchant who spends more than he earns, must infallibly go bankrupt, as Citizen Dupont de Bussac very aptly stated in the National Assembly; for, how could the bankers do what the State cannot? This is why those who do not speculate, that is to say, who do not risk the funds deposited with them, demand money to be responsible guardians of them. The Bank of the People asks for nothing, for it exchanges its custodial services with those who deposit money for the guarantee of solvency that this guarantee provides with respect to all deposits made to it.

We will not discuss the budget service, since the Bank cannot currently undertake this type of operation, which can only begin once the Social Republic has been established.

The second consequence of the principle we have just developed, that *every credit transaction is resolved into an exchange*, is that *the provision of capital and the discounting of securities cannot and should not give rise to any interest*.

One can only exchange equal values; thus, if I exchange a hat for trousers, it is because I consider the trousers to be worth the same as the hat. If I now give my hat to my neighbor a month earlier than he gives me his trousers, will I ask him for interest on the value of my hat for an additional month in addition to the value of his trousers? Obviously not.

For this is an exchange we have made together; we consider the values to be equal, and it would be fraud on my part if I were to ask for more.

After explaining the principles upon which the Bank of the People is based, we will discuss the advantages it offers to citizens in various circumstances.

ADVANTAGES RESULTING FROM MEMBERSHIP IN THE BANK OF THE PEOPLE.

1. Workers' Associations.

The Bank of the People will serve as a natural link for the various workers' associations. It is through its intermediary that they can:

1. Exchange their products with each other;
2. Build a clientele outside the bank through free advertisements placed by the Bank of the People;
3. Avoid unemployment through the advances it will make to them, and by taking advantage of the benefits of consignment.

The Bank of the People will begin by supporting associations formed for the production and supply of essential goods, and will even encourage their formation wherever needed. Thus, from the outset, it will establish contact with all existing associations and begin providing advances of funds as soon as possible to Cooks, Tailors, Hatters, Shoemakers, Laundresses, Linen Manufactures, etc.

2. Manufacturers and Merchants.

The Bank of the People will discount manufacturers' and traders' commercial paper with only two signatures, instead of the three required by the Bank of France, at a rate of 2 percent per annum, commission included. It will accept their products on consignment and make them advances, as we have already mentioned above.

It will facilitate the development of their customer base through free advertising.

It will establish sample bazaars for their products to facilitate wholesale distribution.

It is also understood that the same advantages outlined here will be offered to workers' associations.

Finally, it will make them advances against security, as explained above.

CONSUMERS IN GENERAL

Given that, as we will see later in the article on Membership, members are obligated to sell at a lower price in exchange for vouchers than for cash, one will actually obtain a greater quantity of goods from the Bank by purchasing vouchers in exchange for coins than one would have obtained with cash. This difference can be seen in the discounts that merchants grant each other. Thus, if a merchant buys from another merchant, he will pay less than a private individual. Holders of vouchers and members will be on the same terms with each other as merchants are with other merchants.

Furthermore, the consumer will have the quality guarantee required by the oversight that the Bank of the People will exercise over the products of its members.

RETAILERS.

In addition to the advantage they will find in discounting their commercial paper, retailers will find a ready-made clientele among the members, through their commitment to receive the circulation voucher.

WORKERS.

The workers will enjoy the advantages stated above; but the benefits of the Bank of the People will not end there.

It will deliver them all the more quickly as it gains members and shareholders from their position as employees, through the development it will impart to the principle of association.

Thus, if the workers contribute to the Bank the portion of their wages that they allocate to essential goods — for which the Bank will organize special services, should it not initially find sufficient funds among its members to meet the demand that may arise — they will, by purchasing the vouchers they issue, enable the Bank of the People to quickly provide the associations formed for the operation of large industries with the necessary funds to establish themselves and function.

THE SHARES.

The shares are intended to form the Bank's common fund. It is the People, constituting their own fund, which is nothing other than the peaceful lever of their emancipation. It has been objected that capital would not reach the Bank of the People because it did not pay interest on shares. We have, I think, sufficiently

demonstrated that capital should not bear interest, and, in fact, it would be absurd to suppose that the People would demand to pay themselves interest on their own funds; for, as will be seen upon reading the articles of incorporation, it is they who are called upon to manage their own Bank, as soon as it can be constituted as a limited company. The true, the only legitimate interest, is for the proletarians to escape the state of inferiority to which misery has consigned them; for the bourgeoisie, to avoid violent reforms of society. Thus, it remains clearly understood that shares do not entitle the holder to any interest. However, when the Bank, through its large membership, is able to repay its shareholders, each member will recover the funds they deposited. These are therefore, in reality, interest-free loans for a period determined solely by the increase in the number of members.

THE CIRCULATION VOUCHERS.

Circulation vouchers are delivery orders for goods, products or services from the member's industry. There will be vouchers of varying values, according to the needs that practice dictates. The articles of association have made all necessary provisions in this regard.

The circulation voucher, instead of having legal tender status like a Bank of France note, has only voluntary tender status, since the member may withdraw their membership by notifying the Bank fifteen days in advance. This is what gives it its great value, because it is based on the people's self-confidence and not on force.

Duties of the Member.

Art. 1. The citizen undertakes to submit to the administration of the Bank of the People a list of the products and services of their industry, and their price list, with any discounts they may offer, in accordance with Article 21. They further undertake to keep a current price list of their goods available to consumers in their stores and to display their Bank of the People membership plaque, which will be provided by the administration at the member's expense, in a visible location.

When the citizen makes significant changes to the nature of their production, they must notify the administration. Regarding prices, they guarantee them until revoked; that is to say, until a new price list is submitted to the Bank of the People, they are committed to delivering the products and services of their industry at the rate of the last price list they provided.

Art. 2. The citizen shall always be free to terminate this treaty by giving the Bank fifteen days' notice. However, until termination has taken place, they are formally bound, under Articles 22 and 26 of the statutes, to accept the *circulation vouchers*, either against the products or services of his industry, or in settlement of any debt.

In the event of a breach of this obligation, the citizen shall be liable for all damages and interest to the company, in accordance with Article 1142 of the Civil Code; and, moreover, if the Bank so chooses, the treaty shall become null and void with respect to them. This cancellation shall be effected by means of a notice published in the newspaper that the Bank adopts for its announcements, and without any other formalities being required.

Art. 3. For its part, the Bank of the People formally undertakes to enter the citizen's name, with an indication of his industry, in the registers kept *ad hoc* at the administration, which will serve as an indicator for members of the execution of article 21.

MISCELLANEOUS OBJECTIONS.

We have already received the following objections:

1. *How can one make very small purchases with circulating vouchers, unless one has vouchers of very small value?*

First, we reply that the Bank of the People's paper is not intended to eliminate small change, but rather large, which alone, through its hoarding, hinders commerce.

Second, since the Bank of the People has reserved the right to redeem circulating vouchers in cash, it is in its interest to facilitate the circulation of its vouchers among its members by providing them with the necessary currency for their businesses, in exchange for the excessive quantity of vouchers that one of them might receive.

Finally, the small purchase is proportional to poverty; the rich buy in large quantities: this is what will happen to the People when, through the restoration of circulation, they have succeeded in increasing their well-being.

2. *How will it be possible to issue low-value notes? The notes of the Bank of France do not go below 100 francs.*

We will answer this with facts:

1. The Belgian General Company issues 5-franc notes, which are even legal tender;

2. Prussia and Austria issue 3-franc 60 centime notes.

The United States have issued 20-cent notes; finally, our postage stamps, which are veritable circulation notes, are 20 centimes.

3. How will counterfeiting be prevented?

First, the lower the value of the note, the less incentive there is to counterfeit it, since the penalty is the same and the profit less. The law that guarantees the Bank of France also guarantees that of the People; because the forger is punished in both cases with the same penalty, the Bank of the People will also adopt the methods of the Bank of France from an industrial point of view. Furthermore, a learned chemist has already proposed to it a new and infallible means of preventing counterfeiting.