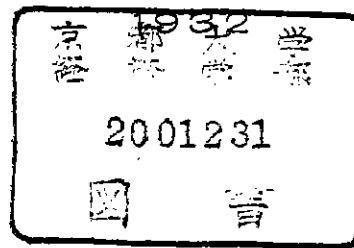


Kyoto University Economic Review

MEMOIRS OF
THE DEPARTMENT OF ECONOMICS
IN
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME VII



PUBLISHED BY THE DEPARTMENT
OF ECONOMICS IN
THE IMPERIAL UNIVERSITY OF KYOTO

THE "SUPPLYING PURCHASING
POWER" PLAN
AN URGENT PROPOSAL FOR THE BREAKING DOWN
OF THE WORLD CRISIS BY SUPPLYING
PEOPLE'S PURCHASING POWER

1. PURCHASING POWER EMANATING FROM THE
MASSES

The "Supplying purchasing power" plan, which I propose to deal with in this article, is intended for the elimination of the present ruinous crisis by fostering a strong purchasing power among the masses.

Many scholars attribute the present crisis to "over-production," but how can there be over-production in a world in which a large number of factories are closed down, many plants are sealed up, large funds lie dormant, and much labour is unemployed? Yet, the fact remains that shops have large stocks on their hands, and warehouses are bursting with enormous quantities of unsaleable goods stored. And why? The lack of purchasing power on the part of the people generally is the root cause of this apparent inconsistency.

2. ALL REMEDIES IN VAIN

The remedial measures hitherto devised and enforced in many countries of the world have all failed. It is particularly noteworthy that the one elaborated by President Hoover on an enormous scale has so far proved an utter failure, and that the depression is most severe in America. The cause of the failure of all these remedies is to be found in the fact that these plans either left untouched the lack of purchasing power among the public, or diminish the purchasing power more further.

Desperate attempts are being made everywhere in the world at present to force up prices, in the belief that higher prices will bring about business prosperity. It must, however, be remembered that the increase of the purchasing power induced by higher prices is practically limited to intermediary merchants. The intermediary demand may thus grow and the prices of commodities may be forced up, but the purchasing power of the masses, who are always the final purchasers and final consumers, is, so far from being increased, reduced the more by higher prices. In such circumstances, the growth of the intermediary demand merely adds to the accumulation of intermediary stocks. A terrible reaction follows soon, causing the prices to drop to a still lower level. Thus, the crisis becomes accentuated. Indeed, we have just been made to swallow the bitter pill of an ephemeral business prosperity caused by the reimposition of the gold embargo.

3. REASONS FOR THE FAILURE OF RATIONALISATION

It may be suggested that the people's purchasing power should be stimulated by lowering prices. It would seem, indeed, that the only way to relieve the masses, who are suffering from insufficient purchasing power, is to lower the prices of commodities, but it is open to grave doubt whether industrialists who are already hard hit by the disastrous fall of prices can ever hope to survive a further decline. The rationalisation movement was launched in an attempt to break the dilemma between high prices with no demand and low prices with disastrous consequences to industrialists. Rationalisation means the devising of methods by which goods can be sold cheap with a good margin of profit.

The rationalisation movement has, however, already proved a failure as a policy to cope with the present crisis. And why? It is, of course, admissible that some individual enterprises have been revived by rationalisation, but ration-

alisation leads either to greater unemployment or to lower wages. The result is a further diminution of the purchasing power of the people at large. The depression cannot but be intensified in this way.

4. EFFECTS OF PUBLIC WORKS

How, then, will the plan to launch extensive public works, at a total expenditure of ¥ 350,000,000, operate to restore business prosperity? The utilisation of engineering works for the relief of unemployment is a practice of old standing. The device has often been resorted to since the Malthusian days, a hundred years ago. As engineering works do not lead to the production of commodities, they certainly are far better than any plans designed to increase production, as schemes to be undertaken in times of over-production.

But whose purchasing power will the money expended on engineering works go to increase? It is undeniable that an enormous purchasing power is created by such works, but a large proportion of it will be used as the productive purchasing power of the organisers of these works for the purchase of cement, iron and other materials, only a small fraction being employed as wages, which are to be converted into the consumptive purchasing power of the people. Public works can, it is true, relieve unemployment, on the one hand, and stimulate the development of a few special industries. The question is, however, whether the development of these few industries will, in the end, bring about general business prosperity. By roundabout and subtle academic theorising, the return of general business prosperity through this process may be explained, but in actual society it will perhaps never take place, a fact which, indeed, the recent experience in this country has already proved. The outlay of a few hundred million yen on account of the Manchurian and the Shanghai affairs was enough to make the munitions industry prosperous, but served to do nothing beyond that.

There is no indication of the improvement of general business conditions on that account. If, therefore, engineering works, the munitions industry and some other industries may be stimulated by dint of Government funds, it will do very little to remove the present severe depression, as the portion of the funds which goes direct to increase the people's purchasing power is very small.

5. CLEAR-CUT PLAIN TRUTH

The failure of all the remedial measures hitherto devised and carried out in all countries is due to the fact that they either positively aggravate, or take no account of, the real cause of the crisis—the lack of the people's purchasing power. My plan is to grapple vigorously with the lack of the people's purchasing power and to supply it. It aims at the excision by drastic surgical treatment of the cancer of the deadly crisis, namely, the lack of the purchasing power.

The lack of the purchasing power must needs be made good. The only remedy for such lack is to make it up. This clear-cut and plain truth is the basic principle upon which the "Filling Purchasing Power" plan stands. The plan is designed to stimulate the purchasing power of the masses throughout the country by supplying them direct with a fund of some ¥1,000,000,000, the source of a year's purchasing power, at the rate of about ¥100,000,000 a month, through the rational operation of the State banking organism. In existing circumstances, an inflation of ¥1,000,000,000 or thereabouts is unavoidable anyway. To modify deflation and to encourage inflation to a certain extent must be the keynote of a new world economy to be introduced in 1932 for the purpose of turning depression into prosperity. It was for no other purpose than this that the security reserve of the Bank of Japan has been expanded to ¥1,000,000,000 and the tax on note issues beyond the untaxable limit been reduced to 3 per cent. The only difference between the Government plan and this plan lies in the manner

of applying this inflated currency of ¥1,000,000,000.

6. FAILURE OF THE INFLATION POLICY OF AMERICA

An inflation policy was put to the test in America and was only found to be failed. President Hoover initiated grandiose plans, such as the plan of the Federal Banking Company capitalised at ¥1,000,000,000; that of the Restoration Banking Corporation with a capital of ¥6,000,000,000 (originally capitalised at ¥4,000,000,000); that of generating an inflation of ¥20,000,000,000 from free money amounting to ¥2,000,000,000; and that of expanding the accommodation facilities of the Federal Reserve Bank. Backed, as it was, by such enormous funds, the American inflation policy proved powerless to overcome the crisis, which is actually becoming intensified. If so, it might be asked, how can the monthly supply of only ¥100,000,000 as purchasing power be expected to convert depression into prosperity? But the plan cannot be lightly dismissed with a sneer.

The American method is to inflate the currency enormously, to begin with. This inflated currency is first put in the hands of financial capitalists, and then in those of industrial capitalists, because it is conceived that if prosperity comes to the financial and industrial worlds, the unemployed will be absorbed in the revived industries, wages will go up, and the demand for commodities will increase, with the result that the whole national economy is restored to prosperity. This conception is, indeed, theoretically impeccable and logically consistent, but the plan itself did not work well in practice. Financial capitalists made use of the funds supplied to them for repaying their debts, but beyond this they did not go. They had no need of any more money than answered this purpose, since there was no public demand for it. Industrial capitalists acted similarly. They paid their debts with the money supplied, but made use of no more money, because there was no demand for

commodities. In short, the funds failed to fulfil their proper functions and found their way back into the coffer of the Federal Reserve Bank. In other words, they moved aimlessly in the upper order of society without coming down to benefit the lower classes in any way. By the American method, therefore, a real inflation does not come about, and neither a rise of prices nor any business revival accordingly follows, leaving the crisis to become more severe in the meanwhile.

7. INFLATION STARTING FROM THE LOWER RANKS OF SOCIETY

The "Supplying Purchasing Power" plan is, it is true, a sort of inflation, but it is entirely different from that inflation which is contemplated in America and in this country. It aims at the supply of funds to the lower classes instead of the upper, and at the direct conversion of these funds into the purchasing power of the masses. The funds supplied to the upper class, no matter how much the amount, will never benefit the lower classes; they simply move uselessly in the upper class. On the contrary, the funds supplied to the lower ranks of society fulfil their functions to the last yen. Even if the funds do not exceed ¥100,000,000, they are all turned into the flesh and blood of the nation, resulting in the vigorous growth of the people's purchasing power. Business prosperity thus proceeds from the expanded purses of the consuming public.

Industrial capitalists, agreeably surprised at the vigorous growth of the purchasing power of the general public and at the fast dwindling stocks of commodities, will re-open their factories hurriedly and release sealed machinery to put it into working order again. They will give work to unemployed and secure loans of money to increase production. The demand for funds will increase and the recovery of loans become easy, so that financial capitalists will also welcome the advent of business prosperity. This business

revival comes from the actual increase in the demand on the part of consumers; it is not an ephemeral business boom due to speculative manipulations on the part of intermediary merchants.

8. PRINCIPLE OF MAXIMISING THE PURCHASING POWER

What, then, are the concrete methods for putting the "Supplying Purchasing Power" plan into execution? So long as they accord with the aims set forth above, any methods will answer the purpose, and so various methods may be evolved. I rather hope that this problem will be earnestly taken up by the nation, and such concrete plans as will reflect most faithfully the wishes of the nation as a whole will be elaborated by mobilising all the best brains of the people. The rule that must be rigidly observed in this connection is that plans to be evolved must be so contrived as to expand the purchasing power of the people to the maximum. Let me call this, for convenience' sake, the principle of maximising the purchasing power.

In order to maximise the people's purchasing power, various requisites must be fulfilled. In the first place, funds must be supplied to as many people as possible. From this point of view, a method of supply at so much per head may be suggested, but, as, in this country, a household constitutes a unit from which purchasing power issues, a method of supply at so much per household will be more rational. Secondly, the principle of maximising the purchasing power demands that the lower classes should benefit more than the upper. For the funds supplied to well-to-do households will all be turned into their savings, instead of being converted into their purchasing power. The funds must therefore be dealt out to households at rates in inverse proportion to their incomes. Such methods will be in line with social policy too and serve to alleviate the difficulty of living among the masses. In practice,

however, it is difficult to know accurately the amount of the incomes of each household, so all households may be divided by general standards into several classes according to the size of their incomes, and the amount of grants to those belonging to each class be accordingly fixed. This necessitates the plan of supply according to classes. Lastly, the principle of maximising the purchasing power demands that due allowance be made for the size of households. The application of the standard scale of grants must be properly modified according to the size of households; the method of supply must have sufficient elasticity. Concrete methods, if worked out in observance of these rules and requisites, may well commend themselves, no matter what form they may take. The most pertinent and most practicable of all the methods worked out may be adopted.

9. EFFECTS OF THE "SUPPLYING PURCHASING POWER" PLAN

Supposing that pertinent concrete methods have fortunately been devised and this plan has been put into execution, what results can we expect to reap? First, business will take a sudden turn for the better in consequence of the steady increase in the purchasing power of the masses. Secondly, as one prominent feature of the business prosperity arising from the execution of this plan, prosperity will first appear in the lower classes and then spread to the upper. It will make its first appearance in the consumer, and then in the retail dealer, and next in the wholesale merchant. From the wholesaler it will go to the producer, from whom it will extend to the financier. It will be entirely different in nature from business prosperity which usually starts in the upper classes and then gradually spreads to the lower ranks. Thirdly, as in this business prosperity the increase of the purchasing power precedes a rise in the prices of commodities, the circumstances of the masses will immediately become easier. In

ordinary business prosperity, a rise in the prices of commodities comes first and the increase in incomes follows much later, so that the first effects of the return of business prosperity are to exact fresh sacrifices from wage-earners and other people who earn their own livelihood. Fourthly, as, in this business prosperity, the advance of the prices is due, not to a rise either in the cost of production or in the cost of materials, but solely to the increase of the demand, it does not affect the interests of producers and merchants. This cause of business prosperity makes it possible for the Government to restrain any sudden rise in the prices by means of its policy. Fifthly, as the industrial development due to this type of business prosperity occurs where the demand is increased by the growing purchasing power of the nation, the industries which prosper are those which are sanctioned, so to speak, by the people's plebiscite. This offers a striking contrast to the State enterprises and engineering works launched either by the arbitrary decision of the Government or as the result of self-seeking manipulations of political parties. Sixthly, all classes of the nation bask in the favours of this business prosperity. Wage-earners and salaried men receive grants direct, merchants profit by rising prices of commodities and bigger sales, producers can realise bigger gains through larger production, and financiers can recover their loans more quickly and find the demand for funds increase. Lastly, this plan meets with no opposition from any quarter, and is very easy of execution. The new par plan, the moratorium scheme, the debts cancellation project, and the like are all beset many difficulties, as there are losers as well as gainers by them. These difficulties cannot be overcome except at the cost of State compensation for losses and the consequent increase in the burdens on the nation.

10. ITS RELATIONS WITH INTERNATIONAL ECONOMY

Needless to say, the crisis of to-day is world-wide, and consequently nothing short of the revival of "world economy" can hope to remove this "world crisis." This is self-evident. Japan must, therefore, earnestly advocate both the cancellation of the reparations and war debts and the abolition of tariff barriers. At the same time, it is most desirable that the "Supplying Purchasing Power" plan should find world-wide application. In the face of the marked tendency in all countries to discard internationalism in favour of nationalism, such international movements are not likely to bear fruit quickly. Here, I propose the "Supplying Purchasing Power" plan as an emergency measure to overcome the crisis in national economy. It may be asked whether this plan will prove practicable in the present state of international economy. For instance, fears may be entertained lest the whole plan should crumble away on account of the disastrous fall of the exchange and a big increase in the excess of imports over exports which may follow the advent of business prosperity at home and the rise in the prices of commodities.

The "Supplying Purchasing Power" plan is not an isolated and haphazard measure. It forms one phase of the "control" economy which must be adopted to reorganise national economy now reduced to a deadlock by the *laissez-faire* policy. It must also be an emergency measure of control intended to overcome the crisis and restore business prosperity through the control of monetary circulation. For the complete success of this plan, therefore, it is, of course, necessary that measures of control of various descriptions should be adopted in many directions. In the field of international economy, the exchange must be lowered to a certain extent to encourage the export trade so as to counterbalance the rise in the prices at home, while at the same time it must be stabilised at the proper level through

its control. If necessary, the Government must go a step further and control imports also, in order to prevent the adverse balance of trade attending the revival of business prosperity at home. All these measures are not necessarily designed to monopolise prosperity for Japan. They are merely a device to force the exportation of the "Supplying Purchasing Power" plan to the whole world.

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