

APPENDIX

Commerce by direct exchange—“clearing”—has come to be an important link in the whole of our modern monetary and credit system. Clearing has been employed at different times, especially during depressions, and has promoted trade independently of money and ordinary credit, which has been restricted on account of the Gold Standard or similar arrangement.

Of late years a number of clearing organizations have been formed in Europe and America and have given rise to a new kind of transaction. An important factor in the case of these undertakings, and one which differentiates them from the various schemes and experiments described in this book, is that they can be private and set up independently of the political authority.

Clearing is normally associated with the politico-commercial agreements reached between different states, as for instance, that between Germany and Italy. Although the principle involved is the same the clearing under discussion here is, however, of rather a different nature and aims at creating a new sort of trading by the side of the old, within countries and between countries reciprocally, by means of direct settlements.

Instead of enumerating the many part of successful experiments made in this direction in both the Old World and the New, I give here in some detail an account of the single clearing organization formed very recently, namely *The Nordic Clearing Company*. The system in this case has been elaborated by a group of men all prominent in Scandinavian legal and

judicial circles. Though its authors have greatly benefited by the accumulated experience of other pioneers it is independent, and distinct from all earlier clearing movements.

The Nordic Clearing Company has its offices in Stockholm, Sweden, and is the central organ for other clearing companies in Sweden, Norway, Denmark, Finland and the Baltic States. Subsidiary organizations are in process of formation also in England, France, Austria, Switzerland, etc. and the object is to work for as extensive an association as possible.

The chairman of the company is the Minister Plenipotentiary Eric Ehrstrom, of Finland. The other directors are: Mr. Sven Runnquist, barrister to the Supreme Court of Appeal, Stockholm; Colonel Carl Eric von Gegerfeldt, Stockholm. Mr. Olaf Dahll, barrister to the Supreme Court of Appeal, Oslo; Captain Alfred Henning and the barrister Ingemar Ullman are vice directors; and Mr. Leif Bamborg, barrister to the Supreme Court of Appeal, Copenhagen, is legal adviser to the company. The company's representative for England is Dr. Thomas Robertson, of Glasgow.

The following are a few arguments written in favor of the movement, in English, by one of its founders;

In his book *Mastering the Crisis* Irving Fisher, LL.D., professor of economics at Yale University, speaks of the 'swap idea' and of 'stamp scrip'. On page 151 he says, *'I hope the two will coalesce and solve the "hookup" problem.'*

The Nordic Clearing Regulations are intended to promulgate this 'hookup'. They are contained on a single page, easily comprehended.

Available cash and available credit are one and the same thing, but how many people really understand this?

In some way men have managed to complicate the elementary operation of exchanging their products and their labor. A fatal habit of confusing plus and minus has crept into our economic life and caused havoc. Statistics have become a means to tangles of plotting parasitical thought, serviceable in proving any desired plan or theory.

Interest is paid in a haphazard manner involving great risks and subject to unfair influence.

Through the Clearing Regulations interest will be debited and credited at fixed and definite rates, involving neither risk nor privilege.

Purchasing Power has been at the mercy of uncontrolled whims and speculation and of arbitrary guidance. It is therefore the aim of the Clearing Regulations to restore stable purchasing power to all participators. The banks do clearing of a sort among themselves. Nordic Clearing Regulations attempt to popularize this clearing to include everybody.

At the present time money credits (ordinary credits) are arbitrarily liquidated, causing constant periods of crisis and the bankruptcy of some 0-odd percent of all business every 16 years.

Credits issued according to the Nordic Clearing Regulations also have to be liquidated, but instead of exposing the users of the credit to bankruptcy and other conditions unworthy of our civilization, an orderly and gradual liquidation is provided for through an insurance charge made against all transfers. Orderly liquidation must result and the term debt assumes an entirely different significance. Debts will no longer be an oppressive burden but rather a self-consuming fuel necessary to the interchange of human sustenance. The old kind of debt has become an unbearable burden because of its imposed self-increasing quality, under the guise of an uncontrolled factor known under the name of 'interest'.

So far the problem of the necessary credit to carry on, and of circulating this credit, has been left to the more or less credit-rationed banks and to advertising agencies. Where these leave off is the intention that the clearing practice should supplement and continue.

The following is drawn from a pamphlet by various men actively engaged in Nordic Clearing, recently published in Sweden and Norway.

History affords the spectacle of a number of different

periods when economic activities seriously decreased and the whole economic mechanism retrogressed. Sometimes this was attributed to a total or partial failure of crops or to underproduction of other goods. At other times these crises occurred without any initial decrease in production. Vast stocks of commodities lay unsold while a good proportion of the labor and population was unemployed, in spite of the fact that people needed the goods available and were ready to offer their services in exchange for them.

This last are kind of depression may be called a *trade or distributive crisis*. We have recently experienced a crisis of this description, more striking and more characteristic than preceding crises of a like nature, since we now have a greater surplus of goods and above all greater productive power than formerly.

It is not our object to discuss the causes of trade crises, nor to deal generally with the different measures with which they might be met, but to point out that private institutions, sprung from ordinary commercial life, have, during earlier crises been of very great use.

The first clearing banks, from which our present bank and credit system has developed greatly assisted commerce, in that they permitted of settlements on the security of deposits.

A number of institutions have, however, gone still further: they have allowed settlements purely on the security of values in the form of goods and services available, without the safeguard of actual deposits. A typical example is the Bonnard Bank. Opened in the year 1849 after the depression in France with headquarters in Marseilles and branch offices in Paris and Lyons, this firm served as a kind of Exchange or Center of barter, where producers, wholesalers, merchants and wage earners of every description could meet for the direct exchange of goods and services. The bank issued 'credit notes', by means of which the interested parties were able to exchange their goods and services on a scale which far surpassed what could be done at that time through ordinary commercial channels.

This bank enjoyed such great confidence that, on the average, it refused daily four times as much business as it was able to undertake. During the course of its first three years of trading the Paris office of the firm undertook commissions worth 127 million francs (an equivalent of 635 million francs today) practically without the use of currency and *without incurring a single loss*. A catalog from 1857 of the purveyors and enrolled occupiers 64 pages.

It seems to be generally admitted that this bank really did promote new trade and did not merely deprive its orthodox competitors of a certain proportion of their business. Financial periodicals and publications referred to this special bank with great sympathy and goodwill. The firm is still extant and is managed by the founder's grandson. Apart from its bartering activities the bank now deals with ordinary business.

The present trade crisis should more than any preceding it favor the rise of similar enterprises. We now have richer resources, greater productive capacity and more experience at our command than ever before. Moreover we have a better grasp of distributive problems than formerly. Numberless projects and practical experiments afford ample information for the setting up of practicable clearing organizations. In America these barter centers or exchange companies have enjoyed a great boom of recent years. They have given permanent employment to tens of thousands of people and millions have benefited by their activities.

A European enterprise of this kind is *The Nordic Clearing Company*, the object of which is to promote the exchange of goods and services within countries and between different countries reciprocally, and also to organize reciprocal credits to the help of cooperating clearing companies in different countries.

Local companies are in process of formation in Norway, Sweden, and Denmark, to be followed by similar organizations in Finland, Iceland and the Baltic States. Together these countries will form a ring. Plans are now also being laid for establishing clearing companies in England, France, Belgium,

Austria, Hungary, Switzerland and other countries, which will join the association, the object being by this means to develop the system into an extensive international commercial organization.

The System to be adopted is based on the experience of earlier experimenters and, moreover, offers many valuable suggestions deriving from the latest observations.

THE FORMATION OF LOCAL COMPANIES

The procedure when starting a local department of the Nordic Clearing Company is as follows:

Relations are entered into with producers, merchants and wage earners. As soon as a sufficiently representative number of members is enrolled operations may immediately commence.

Each member contributes to certain sum of money to cover running expenses and as a basis of credit. This money, however, is not idle capital for the party may at once have a clearing account opened for the sum in question, i.e. he can for this sum immediately obtain goods and services from other members or from outsiders wishing to trade with the company. Since it may be assumed that each member would want to make an immediate use of his credit the sum contributed is at once turned over and becomes the instrument of continually fresh transactions. The seller delivering goods against an order on the buyer's clearing credit is himself credited with the sum in question, of which he can again make an immediate use.

Experience has shown that when a sum has been introduced into the clearing system it quickly and surely mediates new transactions.

Provided there is a sufficiently large roll of original members the specified entrance fee and credit cover may be fixed as low as 50 Crowns (about 50 shillings) per member. The total amount thus collected should be sufficient to set the undertaking on its feet. Additional cleaning creditors is obtained in the following ways:

1. By depositing fresh cash, for which a premium of 5% is allowed. This premium increases the purchasing power of the members and is justifiable and economically beneficial in a time of constantly expanding productive capacity; moreover it is of such modest proportions that clearing companies have always shown themselves able to afford it with ease by employing a liquidation or amortization system to be described later.

On the other hand no interest in the ordinary sense is paid by the company against cash payments since they are immediately turned into goods or services, the idea of being not to deposit cash before it is actually needed for purchase.

Furthermore a bonus is given or discount allowed on each purchase and this stresses even more the company's character of a purely distributive organization. The company is not intended as repository of money in competition with banks.

2. The Company shall also grant members credit without cash, but to begin with against ordinarily accepted securities.

LIQUIDATION OF CREDITS. BUYERS' BONUS

The credit which is transferred from one member to another in the form of goods delivered or services rendered is as a rule repaid with goods and services at no interest and within a period convenient to both parties. Debtors who deposit cash are assured of a fresh credit, i.e. an immediate right to goods or services, for the whole value of the deposit.

Furthermore credit amortises itself in the course of business. This comes about in the following way: for every transaction the seller is debited with the discount of 1/2% for amounts of £2000 or over, rising to 5% on amounts under 50 Crowns. A clearing transaction is for the seller practically speaking equivalent to a cash sale at a minimum risk, and, moreover, he is provided, as it were, with free marketing service, since it is the company which puts purchasers in touch with suppliers. Thus the discount is merely a fair fee and a small one. It should be debited to the seller since a member is best able to bear this expense at the moment he makes a sale. As the members are alternately buyers and sellers all share in bearing this cost.

The amount deducted in discounts is allocated in the company's books in the following way: one third goes back to the buyer and is credited to his account, i.e. amortizes his credit. Thus credit is gradually and automatically liquidated in the course of business. At the rate of turnover, which experience has shown may be reckoned with, amortization proceeds with remarkable rapidity (see later). Another third of all discounts goes to covering the company's administration costs, to liquidating its possible debts, or to forming a reserve. The remaining one third is, during the first two years' activities, credited as commission to those responsible for enrolling new members, but after such period this practice is dispensed with and the whole two-thirds of the sellers' discounts go to the company. After some time income from this source will considerably exceed the company's needs of the surplus obtained will be distributed to each member in proportion to his contribution to the total turnover. This supplements the amortization of credit and can eventually form the basis of new and extended credit for the members.

CASH PAYMENTS

Cash which lies at the disposal of the company and is not needed for purposes of administration, may also be loaned out to members in need of ready money, as for instance, those needing materials which cannot be obtained by direct exchange within the organization. In the case of these cash loans there is in the first place deducted from the borrower's account that 5% bonus credited to him against his original deposit and in the second place 5% is charged on the loan as security to cover risks of nonpayment. Ordinary interest is not demanded.

ORDINARY PROCEDURE

For daily transactions an order or check system is as a rule adopted. The company issues books of regulation printed forms, in order that the work of accounting shall be as homogenous and as simple as possible. A member may draw orders up to an amount corresponding to the credit which he holds. The buyer fills in a form stating the amount of his

purchase, together with his name and that of the supplier. When the buyer has signed the order it is handed to the seller who has his account credited with the value of the goods or services furnished, after the specified sales discount has been deducted. The buyer's account is debited with the sum in question and credited with his share of the discount. At the same time the company's account is credited with its share and the balance if need be credited as commission to those members responsible for recruiting new members.

The company shall keep the catalog of all purveyors who have subscribed to the organization and a copy shall be furnished to any member on demand.

PRICE VARIATIONS

Credits are automatically regulated in accordance with any change in the price index. In this way members are always assured of the same real purchasing power, irrespective of fluctuations in the value of money.

VELOCITY OF CIRCULATION—INCREASED TURNOVER

Experience has shown that clearing much encourages a quick turnover. In the case of the clearing movement in Germany and France circulation rate has been 100 per annum. A curious instance in this connection is that of an experiment conducted at a public meeting held in Bâle. 10 Francs were distributed to each of the three unemployed men (30 Francs in all) on the understanding that they should immediately dispose of the money in exchange for goods offered by sellers present who had declared their willingness to allow cash discounts in view of the cash payment. The sellers in their turn immediately spent the same sum on goods offered by other sellers and so on. Delivery was to take place later but the transactions were completed on the spot. The giver of the original 30 Francs was to receive the total of the cash discounts allowed. The suppliers present were subsequently asked how large a cash discount each had given, and it transpired that they had allowed from 2-20% or 5% on the average. *In the course of 40 minutes these 30 Francs turned over goods worth about 600 francs and the original donor was refunded 26.7 Francs in the form*

of cash discounts. His gift of 30 Francs, had, after becoming a credit, that's yielded almost 100% in less than one hour. The credit had 'amortized itself' during this time, and the 30 francs had circulated 20 times within 40 minutes.

Such an increased velocity of circulation naturally brings with it an increased total turnover. Herein lies the main task of the clearing system, viz. an expansion of the total volume of trade done within the community, as well as the exploitation of energy and productivity available to meet existing unsatisfied needs. It is the object of the company not to assume the functions of other institutions and compete with them but purely to bring about new trade by means largely of bartering.

That there are no opportunities for, and a need of, such new trade should be sufficiently well-known. To quote a small instance it might be mentioned that during the depression in the USA credits amounting to \$20 milliard have been withdrawn since 1929, which is equivalent to say that trade has decreased by a corresponding amount, without the occurrence of any relative decrease in productive power, supplies are from materials or of human needs—in fact, rather the contrary.

Clearing can, owing to its peculiar nature, be as good as independent variations in monetary circuit-velocity and of ordinary restrictions of credit.

States, municipalities, parishes and other corporate bodies can in the capacity of producers and consumers join a clearing company, thus making it possible for payments of taxes, water and electricity rates, etc. to go through a clearing organization.

In Denmark an investigation has already been carried out of what clearing would mean to the inhabitants of the town of Aarhus and to the affairs of the municipality, if the latter (1) partially adopted a clearing policy, or (2) in the course of a 20 year liquidation period went in exclusively for clearing. This investigation showed that the municipality would gradually become free of debts, that the burden of taxes would be reduced and unemployment diminish.

The following, reprinted by kind permission of the A/B Nordisk Clearing, are the Regulations issued for the use of English companies in the Nordic Clearing System:

A/B NORDISK CLEARING
CLEARING REGULATIONS

1. A clearing-credit account can be opened by application to any clearing office in the A/B Nordisk Clearing organization.

An account is opened against payment of an amount fixed by the local clearing office to serve, wholly or partly, as the desired initial credit basis.

2. Further credit is granted as follows:

(a) Against presentation of orders of transfer from the holder of an account with the clearing office under A/B Nordisk Clearing (see 4.);

(b) against approved security;

(c) against transfer of acceptance or other claims on third parties. When such claims are paid in cash a 5% bonus is credited to the holder of the account;

(d) against payment in cash. Credit is then obtained for the amount deposited, plus a bonus of 5%.

Whoever obtains clearing credit under “(b)” must, until otherwise decided by A/B Nordisk Clearing, within a time limit fixed in each particular case by the respective clearing office, deposit a corresponding cash sum.

The amount of such cash, plus a 5% bonus, is, in accordance with the request of the borrower, applied either to the expansion of the borrower’s credit or to liquidation of the borrowers debt (see 8.).

3. Credit amounts can be transferred between accounts in offices under A/B Nordisk Clearing, but are not payable in cash. Transfers are generally made through clearing-transfer orders presented for credit to the account (see 2.a.) of the holder of the order and for the debit to the accounts of the drawer of the order. The name of the receiver of the

transfer order must be filled in at the time of the signing of the transfer order.

Transfer orders are non-endorsable and must be presented direct to the clearing office within 10 days. The transfer orders can be certified for credit by the clearing office. At the same time the amount is blocked on the account of the giver of the order.

4. On every amount transferred the account of the receiver of the order is debited with a turnover charge (sales discount), calculated as follows:

1/2% on amounts above 1000 Sw. Kr., minimum 1000 ore.

1% on amounts from 1000 to 250 Sw. Kr., minimum 750 ore.

3% on amounts from 250 to 50 Sw. Kr., minimum 250 ore.

5% on amounts under 50 Sw. Kr., minimum 15 ore.

5. The distribution of the turnover charge (sales discount) is as follows:

(a) one third is immediately credited to an amortization and savings column in the account of the drawer of the clearing-transfer order. Transfer from this column to the clearing credit column of the drawer's account can take place when he has settled his obligation to the clearing office or when the clearing office consents to such transfer.

(B) two thirds is credited to the administration account of the clearing office.

After deduction for the administrative expenses, reserve fund, depreciation fund, general fund and dividends to stockholders the surplus is at the end of the fiscal year credited to the amortization and savings accounts of the account holders in proportion to the total turnover charge debited and credited to each account during the preceding year.

6. The liquid assets of the Clearing Office, in as far as they are not required for the use of the office itself, are at the disposal of the account owners as loans against acceptable security.

Loans are granted against acceptable security and are remitted according to separate agreements in each particular case.

When the amount of the loan is paid out 10% is deducted. Half of this deduction (5%) serves as a guarantee for the return of the cash and is returned to the clearing account of the borrower when the money is returned. The other half of the 10% is then credited to the borrower as a bonus according to 2.d.

7. Clearing credit accounts, amortization and savings accounts (credit-regulating accounts), as well as the loan accounts (see 6.) are stabilized and regulated in the amortization and savings accounts according to a price index figure approved by A/B Nordisk Clearing, whenever this index shows a variation. This regulation starts when the said price index shows a variation of at least 20% from the 1st September, 1935.

8. Clearing credits are generally amortized through transfers from the amortization and savings account (see 5.) If an account owner wishes to withdraw deposited security or fails to meet contracted engagements to the Clearing Office or is otherwise guilty of misconduct, payment of his indebtedness can be exacted in cash (see 7.) at the demand of the Clearing Office.

9. A/B Nordisk Clearing is exclusively authorized to use the Nordisk Clearing Credit System.

Changes in, or in addition to, these regulations can be made only by A/B Nordisk Clearing, whose decisions on the interpretation of any of the above regulations are final.