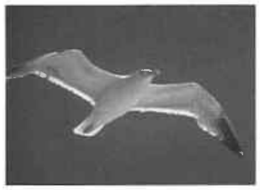
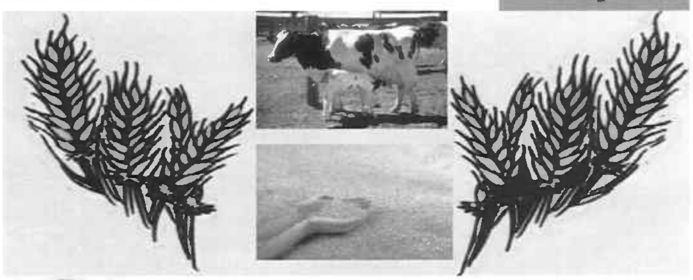
A$ + B$

AND ALL THAT



By
V. J. Bridger



$  $

The Cover

The Bird on the Wing is a symbol of freedom. It represents the ability to move around unrestricted by anything but nature and other predators.

Parliament House and the military planes are a symbol denoting political security whose function should be to administer the affairs of those whom they are elected to represent and the power to protect those interests. Together they represent Political Security.

The Wheat, Dairy Cow and Grain all represent the natural resources that provide for one of the basics of life – Food, Bread, Butter and Milk.

The Coat and Pants, the Coat and Dress represent another basic – Clothing.

The House represents the final basic – Shelter.

These three basics, Food, Clothing and Shelter together represent the basic necessities in economic life – Economic Security.

The Dollar sign is simply a symbol that represents the value that we place upon those basics. It is also the means by which the A + B Theorem is expressed. The symbol is not real but the basics are and that is the whole point of the exercise, which has been denied by those who philosophically and politically oppose the reality in Political and Economic Realism.

A + B

AND ALL THAT

A Critique on Critics

Compiled by

Victor J. Bridger

FOREWORD

Major C. H. Douglas, M. I. Mech. E., published his first book *Economic Democracy* in 1920, followed later in the same year by *Credit Power and Democracy*.

Considerable interest was shown in many centres to his proposal for consumer credits to bridge the gap between incomes and prices, that his research had uncovered. The basic fact on which he built his proposals became known as the A + B Theorem (not, be it noted, Theory).

This book records the arguments this statement of fact aroused among orthodox economists and their followers. Douglas' answers to his critics follow each challenge.

During the 1930s Douglas publicly debated his proposals with three prominent economists, and in the same period he wrote extensive replies to reputable authors of books and articles which claimed his Theorem was incorrect.

Mr. Vic Bridger, Fellow of The Social Credit Secretariat, UK has collected the verbatim reports of the debates. The written criticisms and Douglas's answers have also been included. The debates and articles reveal Douglas's speaking and writing in a more conversational style, in contrast to the succinct and precise presentation in his books when writing, on technical aspects of Social Credit and finance.

The information gathered into this book, not previously easily available, let alone in one volume, is immense. Students of Social Credit and others will, if they seek it, acquire a complete understanding of the flaw in the cost accounting system revealed by Douglas. However, it is not a book to pick up for a quick read on a wet day. Each sentence in both the accusations and answers needs a close and diligent scrutiny.

The subject discussed is not easily understood, but a close and attentive study, will bring a realisation of how completely Douglas, with his practical experience, understood financing and costing in industry. This was in contrast to the complete confusion and apparent incompetence of his textbook opponents.

Vic Bridger has compiled a reference book for Social Crediters, and everyone else who desire to know exactly what Douglas did write. It will forever remain a tribute to Vic's initiative and enterprise. His determination to search over a number of years, for long forgotten journals, books and reports has its reward in the publication of this book. In addition, we must not forget the energy and patience required to draft and assemble the masses of material acquired in his search.

A + B and All That deserves the widest distribution.

L. Wood

INTRODUCTION

A + B AND ALL THAT

There is in human nature a particular trait that finds expression **in** the simplest of minds. It is something that can be seen in children in their dealings with their peers. Children can be very cruel in their attitudes to other children both physically and verbally. Their experience and knowledge has not developed to a stage where they can communicate or exhibit a reasoned or developed argument or discussion on whatever the topic may be. They resort to name-calling, ridicule, and sometimes abuse, down to outright physical violence. The bully has been described as one who has more brawn than brains. This same trait can also be attributed to many adults. Whilst it may be due to immaturity, lack of education, or some physical ailment in some, it cannot be excused for those who by education, and training, especially in a specific field who resort to the same tactics to counter an argument of someone whose ideas differ from their own. More is expected of these people who should exhibit more brains than brawn. With modern communications and those who are in control, it is evident that the maxim of might is right is resorted to in various facets. The inability of a person or a small number of persons to stand on an issue with the sheer might of the communications media and finance against them directed by a person or persons in opposition, is well known and needs no further expression.

In 1920 C. H. Douglas produced his *Economic Democracy* and exhibited an understanding of many of the problems with which society faced in those areas depicted in the title. Although a small publication it contained much that has eluded many people in their ability to grasp the significance of what he was saying. For many years he travelled the world lecturing and speaking on his ideas that were to become known as Douglas Social Credit.

He deplored the use of his name in connection with these ideas and as a result the ideas became known as Social Credit. Douglas may have brought attention to his findings but did not lay claim to the origin of the physical and metaphysical results of nature that were the basis of his expositions. Despite this, there were those persons, who for reasons best known to themselves continued to refer to Douglas Social Credit schemes or plans, even though it had been stated repeatedly that it was not a plan any more than the use of the words Democracy or Christianity. From 1919 to the early thirties there was little said in opposition to what Douglas had been saying but in the thirties there emerged a spate of writings by people who were determined to "prove" that Douglas had it all wrong and that he was a monetary crank. This perception remains today because there are still those who for reasons best known to themselves continue to refer to the critics of the thirties—even those very critics who had been demolished and discredited by Douglas and others.

It is well known that in many professions that unless one is a member of that profession any views or comments relating to matters within their province that has not been "discovered" by one of their own is labelled as nonsense. Economics is no exception. In fact, it may be said that economists are stronger in their condemnation of outsiders than any other profession including the medical profession. Economics is claimed to be a science, but in fact it is not, and although referred to by some economists as a dismal science it cannot even claim this distinction because a science either is or it is not. One thing is certain, and that is that Douglas never claimed to be an economist and in fact spurned the very idea.

From the criticisms that have been raised during the last eight decades it is more than obvious that those critics have not understood and do not understand the subject of Social Credit.

If they did, it would have occurred that the monetary aspect is only one part of the whole. It would seem then that such criticisms that have been made were due to some feeling of insecurity in that their professional domain was being undermined.

This certainly had nothing to do with discovering and understanding the truths that related to Man and the society in which he lives. In fact, it demonstrates an inability to distinguish between numbers and things. Man is not a number. Today there are current critics existing who, in attempting to discredit or ridicule Social Credit, are in fact demonstrating that they do not consider it to be irrelevant. Whilst the proponents of Social Credit exist they have made little indent in the affairs of Man and the society that could be benefited by the introduction of their Philosophy and Policy. This being the case, why do the opponents continue to regard them as relevant?

This writing is not concerned with the overall issue of Social Credit but simply that part that deals with what is known as the A + B Theorem. The intention is not to prove its correctness as this has been done already through the passage of time and events as will be seen throughout the following discussion. The main purpose for writing this work at all is to expose the falsehoods past and present, the presentation of untruths, and the manner in which these critics have dealt with the subject matter. Most of us are familiar with the tall poppy syndrome, or the Hollywood Western where there was always some insignificant nobody who wanted to take on and beat the "greatest" gun-slinger to make a name for themselves. Most of it was fiction although in the case of Jesse James he was shot in the back.

Much could be said about those critics of Social Credit who criticise but are not prepared to face the truth and who prefer to refer to the writings of others who, like themselves, have never read Douglas, or understood his work, or simply do not wish to admit they do not understand it. Such is the worth of those who would consider themselves scholars whose main consideration was not to benefit mankind but themselves.

Their efforts are primarily vocational and monetary rewards for themselves along with the ego of being another who has "discredited", "slain the giant", "shot him down in flames", and more particularly of late "shot him in the back", because he is not around any more to defend himself.

This is not an attempt to defend C. H. Douglas, because he does not need defending. It is rather a case of telling the truth. To put before the public a correct assertion with regard to these matters requires much repetition and quotes and statements not of this writer's imagination but those of the players involved.

Where possible, the order in which the material is presented will be as chronological as feasible to provide some semblance of the development of the argument. In the light of current accepted knowledge some of the arguments may appear to be tautologous but it must be remembered that it is in the arena of Economics and their writers that arguments have changed, not Social Credit. This is not to say that Social Credit itself does not change, it does, being an organic growth, but the principles and acceptance of the Law of Nature do not change. New discoveries may be made in regard to the operation of Natural Law, *e.g.*, those relating to motion, gravity, relativity, that allow for man to fly in an aeroplane or venture into space.

Time and space and energy are still the same today as they were eight decades ago. It is the increase in our knowledge and understanding of them and how they may be utilised to benefit mankind that has changed.

The reader will be aware of comments that on first glance may appear biting. Beware! What is presented here is not an attack on our opponents. There is no resorting to *Argumentum ad Hominem*. Sometimes the truth hurts but only those who cannot or will not accept it.

There are those critics who may genuinely believe that they are providing a service to the community by pointing out what they consider to be errors. To them we can only say that "the road to hell is paved with good intentions," or perhaps, "forgive them for they do not know what they do." To others who deliberately distort the truth, we hope the truth hurts.

CONTENTS

CHAPTER I

To all students of the subject of Social Credit it is self evident that the primary requisite is an understanding of the Philosophy. It is this Philosophy that undergirds and on which the Policy is based. Part of the policy of Social Credit revolves around a claim that there needs to be a fundamental alteration to the accounting system that reflects the reality of the physical world in which we live. The reality that we are dealing with in this discussion relates to the relationship between the productive system and the financial system. It is simply superfluous to say that the financial system should be a reflection of the production system and that the production system should operate in a state that recognises the Law of Nature.

It is the failure of most antagonists to understand the principles involved together with a lack of understanding of the English language and an adherence to the strict truth of statements that are made that leads them into error. Indeed, there have been some who have indicated their support for ideas expressed by C. H. Douglas but who also have not grasped an understanding and as a result have become the basis for criticism of Social Credit. It can only be said that the academic standing of those who resort to analysis on a subject without going to source material cannot be accepted as of any standing value.

As this controversy amongst the critics centres around the A + B Theorem no attempt is made to examine the Philosophy. Obviously, if opponents of Social Credit do not accept the Philosophy it is self-evident that they will not or cannot accept the Policy. The arguments contained herein are purely to expose the fallacies of their arguments, their misguided beliefs, their underhanded attempts to resort to deception by applying fallacious arguments and then “proving” them wrong.

This is commonly called “the straw man argument.”

The A + B Theorem

Although the Theorem had its origin in 1919 its inclusion in *The Monopoly of Credit* by C. H. Douglas, first published in 1931, provided evidence by Douglas of its correctness.

The Theorem states:

> In any manufacturing undertaking the payments made may be divided into two groups: Group A – Payments made to individuals as wages, salaries, and dividends, and Group B – Payments made to other organizations for raw materials, bank charges, and other external costs. The rate of distribution of purchasing power to individuals is represented by A, but since all payments go into prices, the rate of generation of prices cannot be less than A plus B. Since A will not purchase A plus B, a proportion of the product at least equivalent to B must be distributed by a form of purchasing power which is not comprised in the description grouped under A.

This Theorem should be referred to at all times when being discussed because it has been stated in different terms by academics and others in their attempts to explain it. It says what it says – no more and no less. It is a Theorem which means that it is a statement of fact which although not self-evident, can be demonstrated to be true as can be a Geometry Theorem. The problem for most challengers is not that as a simple statement it is not true, because it is. A cannot be equal to A + B. The problem lies with the word "rate".

Rate implies time. Writing in *The New Age,* October 9, 1924,[1] Douglas pointed to ". . . the astounding inability on the part of many people who were neither dull nor consciously antagonistic, to grasp its meaning, was a revelation in practical psychology."

Douglas commented on the fact that,

> In the last two or three years (prior to 1924) several books have been written by authors entirely unconnected with the Social Credit Movement, both in this country (England) and in America, proving the same theorem by different methods of attack. . . . But . . . it is still extraordinarily difficult, for many people to grasp the proposition which is involved, by *intellectual* methods, although considerable numbers find it easy enough by intuitional, and to a lesser extent, by mathematical processes.

Physical and Financial Units

To assist further in giving some guidance towards an understanding he offered the following explanation:

> In the production of any articles by modem industry there may be said to be three factors: finance, real capital, and labour. To be clear about this, consider what is actually employed in a modem factory. There is money for wages, salaries and outgoings, that is finance; there are tools, buildings, and materials, the latter being practically always semi-manufactures, and these are collectively real capital; and there is labour both manual, technical and administrative. Before going any further let the reader be quite sure that he is in firm possession of the idea that while labour and real capital are expressible in physical units, physical units are not used in finance, but financial units are used.[2]

There is no doubt that the reader should understand what Douglas means when he refers to "physical units" as compared to financial units that are described in terms of symbols such as $ or £, or ¥ or Mark or Peso. In *Economic Democracy* Douglas poses the question and provides the answer in discussing giving the individual power over the basic necessities food, clothing and shelter:

> . . . the first step is to give the individual control of the necessaries of life on the cheapest terms possible. What are these terms? What is the fundamental *currency* [emphasis added – Author] in which the individual does in the last analysis liquidate his debts? A little consideration must make it clear that there can be only one reply; that the individual only possesses inalienable property of the one description; potential effort over a definite period of time.
>
> If this be admitted, and it is inconceivable that anyone would seriously deny it, it follows that *the real unit of the world's currency is effort into time – what we may call the time-energy unit.* [emphasis added – Author]

Having grasped this difference between the two units of measurement we can revert to Douglas's explanation above:

> Now imagine the factory under consideration to be fully organised and in possession of all the necessary tools, material and labour requisite for physical production, and to have a department which corresponds in the method of its workings with the technique of a modem bank. That is to say, imagine it to be able to create a financial credit. The factory now starts working, and its cost accountants allocate wages and salaries to the cost of the product, sums to depreciation, etc., and so on. Indisputably the cost of the product, and therefore the minimum price, will be represented by the total of the credit created *plus all the sums charged against the product for the use of tools, etc.,* and production will go on until this credit is exhausted. Therefore, the minimum price, without profit, of the production would be equal to the amount of credit created, plus overhead charges. Note particularly that these 'overhead charges' are simply *figures* representing money to be recovered in prices in the future.
>
> Suppose this transaction to take place on the desert island, which is so convenient for experiments of this kind; clearly by orthodox financial methods, the whole of this credit has to be repaid, so we will imagine that when the credit is exhausted production stops and consumption begins. The stream of credit begins to flow back from the public to the banking department of the factory through the agency of prices. At once one of two things happens; either the departments connected with overhead charges intercept a portion of the stream of returning 'money' and immobilise it in either a financial or physical form (new machines, *etc.*) in their respective departments to represent the sums they included in cost, in which case the loan could not possibly be repaid in full; or else the loan being a first charge, it *is* repaid in full, in which case the whole of the product cannot possibly be sold, since when prices equal to the

original credit have been paid, the extant credit would be nil, and the public would have no money.[3]

Douglas wrote in a manner that presupposed that people either knew what he was talking about in a specific area, or at least if they did not understand, they could do some research and find out. In the passage just quoted he mentions the technique of a modern bank and its ability to create financial credit. Unfortunately, at that time in 1924 there were many academics who were denying the ability of the banking system to create credit (money), even in the face of statements from recognised authorities in the banking system and others. This view still prevails today, even though it is now officially admitted and is included in the teaching of economic textbooks. There are also those critics who whilst not denying outright that banks create credit (money), say that it is not important, or use some excuse to say that there are controls that limit the banks in this process. At the same time they make absurd claims that Social Crediters want to be able to create credit (money) *ad infinitum* and this would be inflationary, and then use as an example the results of massive credit creation and the disastrous consequences that occurred in Germany after the 1914-18 War.

A little thought to what Douglas said in the above extract reveals the truth. If there is no bus to travel on, one cannot spend money on a fare. If there is no plane to fly on, one cannot spend money on a plane fare. If there is no taxi to hire, one cannot spend money on a taxi fare. If there are no workers to hire, one cannot pay wages. If there are no tools and equipment to purchase, one cannot spend money on tools and equipment. If there is no steel available to make motorcars, one cannot make motor cars. In fact, no production of any kind can take place in a factory where it has no real capital or labour. Why would anyone in their right mind wish to create further credit (money—finance) under the above conditions if there was no use for it? It would be as useful as a man dying of thirst in the desert with no water but a pocket full of credit cards and $500 in his wallet.

Douglas made the point that, "production would go on until this credit is exhausted". It has escaped the notice of the critics that he has not deviated from his acceptance of the definition of money in *Economic Democracy* of 1920:

Definition of Money

> Any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product if he is a willing seller.
>
> (Professor Walker – *Money, Trade and Industry*).

Douglas expressed a valid observation when he said that if money can be "any medium" it then attains a psychological aspect. *In this context* therefore, there is no limit to the amount of credit or money that may be made available. There is however a limit on the requirement of money, and that is a natural limit that is entrenched in the availability of resources, *i.e.,* real capital and labour. This could also be translated into the availability of energy in all its forms and the knowledge *that* is available to utilise energy to transform existing matter from one form to another. The other factor that could be introduced would be time. From this observation came the slogan popularly used by many who did not even understand Social Credit. "What is physically possible can and should be made financially possible."

What should be a simple self-evident and perfectly understandable situation has been completely lost on those who would criticise. Under natural conditions production ceases when real credit is exhausted or does not exist. Under the current financial system, whether in 1924 or today, production is limited by financial credit restraints. In his simple explanation Douglas continues:

It should be particularly noted that it is a matter of no importance to this argument that the overhead charges do actually represent machinery which has been worn out, *etc., etc*. The difficulty is an arithmetical difficulty, not an ethical difficulty. This situation is clearly not affected by separating the finance of the process into a separate business, nor is it affected, in principle by assuming that the factory in question has a stock of savings, which it disburses and recovers in the manner outlined for the loan provided by the bank.

There *is,* however, a very marked difference introduced into the situation by the separation of the banking process from the business which it finances, which difference is quite additional and separate to the process we have just been considering; and this difference, no doubt, has a great deal to do with the progress towards the breakdown of the financial system as a whole, which is now obvious.

When the old-fashioned business financed itself, the period during which its credits were outstanding was co-terminus with the time that it took to make and sell its goods. With the increasing sub-division and complexity of industrial processes the average period necessary to convert raw material into a finished product, and to dispose of it, has very considerably increased. Iron ore mined this year will probably appear as sewing machines three or four years hence, and the sewing machines will be paid for by the public three or four months after that. But probably half a dozen stages at least of this conversion process have been financed by selling trade bills, maturing in ninety days, and the maturity of every one of these bills destroys the amount of purchasing power which is the equivalent of the costs and profits incurred during the period. To put the matter another way, there is no relation at all between the extant amount of purchasing power and the extant price of goods. A moment's consideration of the effect which would be produced by the whole population of this country trying to sell its possessions at once, or even a consideration of the enormous disparity between the second-hand price of a

> perfectly good article and its trade price ought to be sufficient to convince anyone that the financial credit which attaches, even to visible goods, is not, to a considerable extent, in the hands of individuals.[4]

The above argument is not affected in any way by the change in the means of financing, as trade bills may not be used to the same extent that they were in the twenties, or as were 90-day letters of credit in later years. The use of loan financing and the use of overdrafts today do not affect the above argument. What is important is the *rate* at which financial credit is created and destroyed.

Douglas continues his argument and explains the credit situation by saying:

> The key to this, lies without a shadow of a doubt, in the fact that a workable money or credit system must be a double entry system, in which every entry on the production side has an equivalent credit on the consumer's side, which credit remains available and equivalent up to the actual moment of its cancellation by the actual transfer of goods. Since it is of the very essence of the credit system ("Faith—credit—is the substance of things hoped for; the evidence of things not seen") that production will not take place except in the reasonably sure anticipation of a ready market, it seems perfectly clear that the trouble arises from the fact that *the consumer gets his credit from the producer instead of the producer getting his credit from the consumer*. In other words, if the producer knew that the power of rendering credit visible, which is now a monopoly of the banks, were resident in the consumer, he would take orders for his product up to the limit of his capacity from the consumer with the same readiness that he would take them from, let us say the Midland Bank. I have never heard of any manufacturer refusing an order, payment for which was guaranteed by one of the large banks.[5]

It may be obvious to the reader that there would need to be a method by which a change in the finance system would occur. There is, but it is the subject of a different controversy between Social Crediters and orthodox economists. To include this in this discussion would confuse the issue at hand and this is precisely what has occurred with the inability of some people to handle one thing at a time.

Before venturing into the complexities of the financial system the reader should acquire a complete understanding of the physical facts relating to production, *i.e.*, the use of time-energy units.

CHAPTER II

Consistency in thought and action relating to finance and banking, is not a strong point in the arsenal of economists, politicians, bankers and other academics who have been consistent in their attacks on and denigration of Social Credit. By contrast the thoughts and ideas expressed by C. H. Douglas are consistent in their approach to the real world in which we live.

In 1923 Douglas appeared before the Select Standing Committee on Banking and Commerce on *Bill No.* 83, *An Act Respecting Banks and Banking and on the Resolution of Mr. Irvine, M.P., re The Business, Function and Control of Financial Credit, &c. House of Commons, Canada, Ottawa, Thursday, 8th March, 1923.*[6]

The above Enquiry at which Douglas gave evidence eventuated as a result of the fact that the Canadian Bank Charter Act had come up for renewal and several members of the then Progressive Party attempted to delay the renewal by pressing for the Enquiry. Their aim was to utilise evidence from the Enquiry to have the Standing Committee take note of the evidence in conjunction with their review of the Bank Charter Act.

Although they succeeded in this the final outcome was to allow the Committee to treat the evidence as incidental to their examination of the Bank Charter Act. In doing so it allowed the Committee to avoid publishing any conclusions on the subject of business, function and control of financial credit in their Report. This was simply achieved by merely recommending the renewal of the Charter.

A reading of the transcript of the Enquiry indicates that the Committee attached to itself a position of authority even though asking questions. At times it is evident that Douglas might be considered as somewhat of a hostile witness in that some members of the Committee had pre-supposed Douglas's answers. In fact the style of questioning could be regarded as insulting.

The foreword in the above publication included the comment that despite the Committee disregarding the evidence submitted there was some positive result.

> Nevertheless, the intentions of the progressive members were fully realised. One was to enable Major Douglas to be brought face to face with the most experienced administrators and upholders of the present banking system – a privilege (or an ideal, according to how one regards it) which had been rigorously denied him in the financial centre of the world – the City of London. The other was to secure advantage of getting his evidence and examination permanently recorded in a Governmental publication, which, as such, would be certain to attract the attention of the financial advisers of all other Governments.

This was certainly achieved and it highlights the attitudes and changes of "experienced administrators and upholders of the present banking system". Whilst the Enquiry in total is not relevant to this discussion, some of the questions and answers provide some interesting content:

> *By Mr. Irvine:*
>
> Q. Major Douglas, I have here a little booklet entitled 'Banks and Banking', which was sent to the Members of Parliament with the compliments of the Bankers' Association.
>
> Mr. W.F. Maclean: Who wrote that?
>
> *By Mr. Irvine:*
>
> Q. You will have to ask the Bankers' Association, it is O.K'd. by them. This purports to set forth the function of credit and currency as it is at the present time. May I ask if you have read that pamphlet issued by the Bankers' Association? A. I have, sir.

Q. What is your opinion of it? A. I think, sir it is a very able, very carefully written presentation of the orthodox views on banking and finance, and I would say that the whole of the case of banking and finance as it stands at the present time might be said to stand or fall by the correctness of the statements which are made in that small book.

Q. Being of such importance, then, in your opinion, would you be prepared to answer questions on its subject matter? A. Yes, sir.

Q. On page 3 it is stated, for instance, that the intention is to deal broadly with the basis of credit. From your perusal of the pamphlet, what would you say is the idea of the Canadian Bankers' Association of the ultimate basis of credit? A. I read the book to which you refer, sir, very carefully, and I think it is not anywhere stated what is the ultimate basis of credit, but I think it is quite fair to say that the whole implication of the book is to show that gold is the ultimate basis of credit.

Q. Would you agree with that? A. I should disagree with it, wholly.

Q. Why? A. I think it is erroneous in fact, in actual fact, and also erroneous and mischievous, to some extent, in intention.

Q. On what grounds do you say it is erroneous in fact, or why is it erroneous in fact? A. I should say it is erroneous in fact because no one would expect gold in return for goods and services unless they were thoroughly well assured that they would be able to obtain goods and services in return for gold. Therefore, it may be said that it is the belief which attaches to gold and not the gold itself which is the basis of credit.

Q. You said something about the intention. Why would you say it is unsatisfactory in intention?

The Chairman: Speak a little louder, Mr. Irvine, please.

By Mr. Irvine:

Q. I was asking Major Douglas why he said that the presentation of the case by the Bankers' Association was unsatisfactory in intention.

Mr. McMaster: In intention?

By Mr. Irvine:

Q. In intention? A. As I understand it, it was why gold was the basis of credit.

Q. Yes, that is referring to the basis of credit as laid down by the Bankers' Association. A. I think that the contention that gold is the basis of credit is unsatisfactory in intention, because the quantity of gold in the world bears no relation, and can bear no relation to the possible production and demand and circulation of goods and services, and further, that when any real demand is made on gold, to anything like the extent that the claims on gold exist, the amount of gold in the world has always proved itself to be wholly insufficient to meet these demands.

Q. You would have noticed, I presume, that the words 'currency' and 'credit' seem to occur interchangeably in this presentation. Would you agree with that? A. I should say that all currency is credit, but all credit is not currency.

Q. On pages 14 and 15 of this little book, under the heading, 'Canadian Currency', occur the phrases; 'The primary essential of a currency is stability'. 'No currency has been kept stable that did not rest on a gold basis'. What have you to say in that connection? A. I do not agree with either statement. The primary essential of a currency is not stability, it is that whether stable or variable it shall provide for the maximum production and distribution of goods and services desired by the community.

> That refers to the first phrase. In regard to the second phrase, I should like to point out that this booklet, either specifically – I think both specifically and generally – suggests that the United States has continuously been on what is called a gold basis, and therefore might be expected to confirm these statements which were made. . . .

Douglas proceeds to put into evidence before the Committee a table of index figures revealing the great variations during the period 1921-23. The table was prepared by the Federal Reserve Board on Wholesale Prices in the United States for the purpose of International comparisons. His comment on the index figures was:

> If that is what is meant by stability of a currency, then I do not understand what the meaning of stability is.

Gold Standard

The reader should be in no doubt as to the meaning of the Gold Standard that was accepted by Bankers, Politicians and Economists of the day in contrast to what Douglas was saying. The Gold Standard was a system whereby bank notes are changeable into gold at a fixed rate at any time. Until the 1914-18 war North America and most of the countries of Europe operated on this system. It was generally "suspended" during that war but not by the United States. Britain returned to the Gold Standard in 1925, but like some other countries found it impossible to remain and came off the Gold Standard in 1931. The Gold Standard system was part of accepted economic teaching in 1924 but it is not today. Douglas stated the fallacy in 1924 and it is a fallacy today to believe that the quantity of gold has any relation to the demand and circulation of goods.

Further into the Enquiry after questions, which are irrelevant to the matter under contention, there were other questions put to Douglas that indicate the level of knowledge and understanding and sometimes arrogance of members of the committee. It is interesting to note the sequence of questions alternating between questioners who it would appear were attempting to throw Douglas off balance by their tactics. Some questions and answers have been omitted as they bear no relevance to this discussion.

After some deliberations on differences between British and German currency the following exchange ensued:

By Mr. Woodsworth:

Q. The value of gold is dependent more or less on the law of supply and demand. Is fiat money subject to the same law? A. No.

Q. What is the law that regulates the value of fiat money? A. The relation between prices and fiat money.

Questions followed by the Chairman and then:

By Mr. Good:

Q. Just one question in connection with the stability of currency. I was rather surprised to hear the witness say, if I understood him right, that it was a comparatively immaterial matter whether or not a currency was stable. [Douglas did not say this at all and it is a complete misinterpretation of what he said. Note the end of Douglas's comment in his answer to this –Author.] My idea of a stable currency is that it should be worth in commodity and services approximately the same or as nearly as possible, the same now as last year, and next year, so that any obligations entered into between two parties may not change in the interval between the time they are entered into, and time of settlement. I think perhaps the Committee would like some further elaboration on that point. I was not quite satisfied with the explanation. Possibly I misunderstood it.

A. That is a very important point, and I understand the confusion possibly which that statement might lead to at first. The point I wanted to bring out in making that statement was that whatever the maximum of production and distribution of goods and service, either to the limit of capacity or the limit of real demand – whatever are the conditions of the currency to produce that condition – then that is the determining thing, not either the stability or the variability or anything else of the currency.