The CASE of ALBERTA

PART II

DOMINION-PROVINCIAL RELATIONS
1938

The Case for Alberta

PART II

The Urgent Need for Social and Economic Reform

GOVERNMENT OF THE PROVINCE OF ALBERTA
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Addressed to THE SOVEREIGN PEOPLE of Canada and their Governments.

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CHAPTER I.

Alberta's Case in Summary

1. The Province of Alberta is so richly endowed with natural resources that it is *physically* possible to provide every man, woman and child within its boundaries with a standard of living many times higher than that ruling at present.

2. The following statement shows the capitalized value of Alberta's resources—including population. (It should be emphasized that a correct statement of the assets of a province or a country must include its most essential factor—the capitalized value of its population in terms of productive capacity.)

REAL CAPITAL ASSETS(1)

PROVINCE OF ALBERTA, 1936-37

Agricultural Lands (Developed and Undeveloped)	$ 448,000,000
Forests	2,864,500,000
Minerals	222,343,715,000
Buildings, Harbours, Communications, Irrigation, Developed Water Power and Public Works	756,347,534
Capitalized value of the Population	4,464,046,125
Net Credit Balance between Province and Elsewhere	45,000,000
	$230,921,608,659

3. The foregoing assessment, which is a careful statement of Alberta's capital assets, has been calculated on a conservative basis.

4. With a population of 772,782, the capital resources of the Province average about $300,000 per person. Assuming that these resources were exploited at the very low rate of *one-half of one per cent per annum,* the present standard of living of the people of Alberta would be increased approximately *eight times.* This would yield an average annual income of about $1,500 per person or about $6,000 per family of four at the existing price level.

5. While it may be argued that such a high living standard can be secured only by the export out of the Province of a very substantial portion of the increased production, in order to obtain the diverse variety of goods for which there would be a demand, this is partially true only.

(1) See Appendix I for a detailed statement.

6. The abundant sources of power at the disposal of the Province in its natural assets of coal, oil and, to a limited extent, water power render it ideal for industrial development. Besides, in the main, the majority of the population are in want of the very products which could be supplied from the limited development that has taken place to the present time.

7. Coincident with these vast resources which are at the disposal of the Province we find,—

(*a*) 52,000 persons on relief, living at a very low standard. Of these, 10,000 represent unemployed persons—or a reserve of labour which could be employed in much wanted production.

(*b*) Total taxation — Dominion, provincial, civic and municipal — representing depletion of already inadequate incomes — is estimated at $48,563,276 or about 30 per cent of the net income of the people available as purchasing power for consumers' needs.

(*c*) Debt charges and payments would, in existing conditions, represent a further 25 per cent of gross income—the main burden of this falling on producers and traders.

(*d*) The income of the Province is depleted further by the extortionate freight charges which have to be paid by the people for both goods sent out of the Province and goods brought into the Province—with the disadvantage of selling in an uncontrolled market and buying in controlled markets.

(*e*) The debt situation is staggering. The total of provincial, municipal, mortgage and private debts amount to approximately $600,000,000, or about $800 per capita of the population. To this must be added the average per capita share of the Dominion public debt. This brings the figure of about $800 to $1,100. While this is insignificant beside the corresponding capital resources of the Province, it presents a fantastic problem when, as will be shown later, this debt represents a liability required to be discharged in money which the present system demands shall be issued only as a debt—thus rendering it impossible for the total debt burden to be lessened. It must increase.

8. In short, with resources adequate to provide the people of the Province with a balanced productive system and a high standard of living, the people of Alberta are poverty stricken, taxed to the limit of human endurance and debt-ridden to a point of desperation.

9. While the economic problem facing Alberta is the same problem which is facing every other province, the Dominion as a whole, and every country operating the so-called orthodox financial system, it exists here in a more acute degree, and the crass stupidity of abundant natural resources, with vast reserves of power for productive purposes, existing side by side with poverty, want and restriction is, perhaps, more apparent in Alberta than elsewhere. The absurdity of the anomaly is so startlingly obvious that a people who have given both study and thought to economic problems are demanding immediate action to have this state of affairs remedied.

10. Yet a comparison of Canada with the U.S.A. will reveal that what is so obvious in Alberta should be equally obvious to every person of reasonable intelligence, even though ignorant of economic matters, throughout the Dominion.

11. The U.S.A. comprises a smaller area than Canada. It has the climatic advantages which give it a greater diversity of production, but it is not so richly endowed in natural resources as Canada. It has a population about twelve times that of Canada, yet this smaller and naturally poorer area supports twelve times the population in at least equal comfort generally.

12. What then is the *root* cause of this startling disparity between the two countries? Why is it that Canada, with a population of but some 11,029,000 persons and resources sufficient to provide these with all reasonable material wants, is faced with a problem of widespread poverty? Why is it that unemployment persists when the services of those unemployed could be used to convert idle resources into wanted production? Why is it that Canada's debt increases as fast—or faster—than her wealth as represented by developed resources? Put another way, why are the people of Canada becoming financially poorer through debt as their country becomes physically wealthier—and to whom are they becoming indebted?

13. It is to these questions that the chapters which follow will be directed in the form of a short analytical examination of the economic structure. Such an examination must precede any recommendations for remedial measures—for the damage to social life which has resulted from ill considered and irresponsible experiments to patch up an obviously decaying economic system cannot be condemned too strongly. The human suffering in the world, and the spectacle of nations moving towards an armed conflict that may well end civilization, is a monument to the confused thought and the obstinate adherence to disastrous traditions which are the prevailing features of modern leadership.

14. In that outstanding contribution to our knowledge of civilization, *Human History*, the author, Sir Grafton Elliot Smith, states in the introductory chapter,—

> "One of the strange ironies of the attainment of human rank is that the acquisition of speech, which opens to Man almost unlimited opportunities for extending the range of his knowledge, at the same time provides him with the means for evading the effort of independent thought by offering him ready-made conventions of speech as well as of customs and ideas. The vast majority of mankind thus accepts without question the guidance of tradition, and by sheer inertia loses the ability to observe or interpret evidence in any sense other than the conventional one that has been instilled into them by custom.
>
> "Every one who has ever called attention to facts, or inferences from them, that came into conflict with fashionable doctrines must have been made to realize how little influence the experience of the scientific developments of the last three centuries has had upon men's readiness to make even the simplest observation, or to admit the truth of the most obvious principles. Most men, even without being consciously dishonest or wilfully stupid, seem to be unable to examine heterodox views with understanding and impartiality."

15. The truth of Sir Grafton's strictures are but too evident from the present economic plight of the world, and it is in the spirit of the following extract taken from a leading article which appeared in *The Times*, of London, England, on November 3rd, 1932, that the examination of the situation which follows is submitted to the people of Canada:

> "The problem which is now perplexing mankind is to discover by what flaw or flaws in our system it has come about that the world, never better equipped both in knowledge and in machinery to produce all its needs, is forced to see so much of that knowledge and machinery lying idle while millions of willing workers are unemployed and in want.
>
> "The professed authorities on these questions have expressed many conflicting opinions and have given such contradictory advice, that the best hope of success seems, indeed, to lie in candid examination of the facts by men not professing to be experts and consequently unhampered by preconceived theories."

CHAPTER II.

The Economic Structure

The problems which face Alberta and every other province are basically economic. What we term the economic system is yielding the very results which create the problems. At the outset, therefore, it is important that we determine the purpose for which economic organization should exist, and then that we examine these organizations to ascertain whether, in fact, they are contributing to the objective, and if not, to seek the cause or causes of such failure.

PURPOSE OF ECONOMIC SYSTEM

The economic system has developed during the progress of civilization over a period of 6,000 years. The many interlocking organizations of which it consists, taken collectively, are highly complex, but the purpose of economic organization and the basic principles which should underlie it remain simple.

Reference to Chapter V of this part, dealing with social organization in relation to the constitutional problems of Canada, will emphasize the fact that the social order which is natural is one that is organized to enable individuals in association to get that which they desire and need from their social activities. It is this confidence, arising from the belief that in association they can gain what would not otherwise be possible, that should constitute the social power which prevents social disintegration.

This natural form of society is what we term democracy—or government, in its wide sense, in accordance with the will of the people. It is a recognized fact that the essential feature of democracy is that the policy, which can be defined as the specification of results, shall be determined by the people comprising the social unit.

Broadly speaking, human endeavour in social progress has been governed by man's inherent desire for personal security and personal freedom.

The reality of security and of freedom can not be established or maintained other than within the sphere of economic activity—for it requires that the material wants of every member of the community shall be assured while leaving each as free as possible to "choose or refuse one thing at a time" — the definition of freedom.

Therefore, the purpose of the economic system and of all economic organization is plainly to provide the individuals of a community with goods and services as and when and where these are required, with a maximum of efficiency and a minimum of compulsion upon individuals.

This is fundamental to any proper understanding of the economic structure and any other conception of the purpose of economic organization is a denial of democracy as the natural social order.

PRODUCTIVE ORGANIZATION

For nearly sixty centuries the basic economic problem facing humanity was in regard to production. Under the urge of gaining material security—a sufficiency of food, clothing and shelter—organized society struggled to improve its methods of production. However, in this it was limited by the known sources of energy from which it could draw and by the practical knowledge determining the rate at which it could utilize this energy. Production depends upon the application of energy to matter in order to convert it from a useless into a useful form or to transfer products from where they are not wanted to where they are wanted. This requires organization and is, of course, dependent upon the knowledge, skill and character of the members of the community.

Until the introduction of power production—by which is meant the application of solar energy stored in coal, oil, naptha, etc., to drive machinery—resulting in automatic and semi-automatic productive processes, mankind was dependent upon the very limited energy resources of animals, and the harnessing of wind and water power as aids to human energy.

However, with a knowledge of the way in which the stored energy of the sun found in certain minerals could be harnessed in the service of mankind, a revolution of unprecedented importance in human progress—and in particular in the sphere of production—occurred within the short space of a few decades.

The fundamental fact to be borne in mind is that there are three limiting factors in production,—

(*a*) The energy resources available;

(*b*) The *rate* at which these can be utilized objectively;

(*c*) The natural resources available for conversion into wanted goods.

In the Province of Alberta, the energy resources available in coal, oil, natural gas and gasoline are sufficient to develop the natural resources of the whole of Canada for a very long period of time. The availability of such vast sources of solar energy render the Province ideal for industrial development. If encouraged, wool could be produced and converted into clothing, blankets and other woollen goods. Shoes and all leather goods could be produced as could almost everything for houses. In addition, the Province could produce paper, furniture, chinaware, pottery, tiles, asphalt, dyes and other by-products of coal, biscuits, cereals, carpets, glassware, canned goods, matches, brushes, furs, and while, as yet, no known iron deposits are available for exploitation, the proximity of such vast power resources would render it economic to attract the heavier industries to the Province rather than to send out the energy supplies to eastern points where, in the main, industrial production is centred at present.

UNEMPLOYMENT

With these vast potentialities and with the productive capacity to provide its people with all the food, clothing, homes, roads and many of the amenities of life, the mass of the people are poverty stricken, debt-ridden and taxed to the limit of their already too inadequate incomes. What a startling anomaly it is that in such a situation the Province has over 10,000 heads of families unemployed!

The strange attitude of mind that looks upon unemployment as a natural social affliction and one to be remedied by creating work, is evidently the result of the confusion of thought responsible for having pushed into the background the real purpose of economic activity—the production of what people require, not the creation of work.

Labour-saving machinery and processes obviously reduce the amount of labour required.

The whole tendency of modern industrial organization is to eliminate human toil from the sphere of production. The following data gives some small indication of this trend in industrial organization and development:

> "Let us glance for a few moments at what is happening in the physical world. We will take food first. In agriculture, 75 years ago one man could cultivate 12 acres. To-day, using modern equipment, he can cultivate over 100 acres. In the United States, where they are much more technically equipped in agriculture than we are in this country, using modern equipment and methods, 4,000 men could have cultivated the 1929 crop; 100 years previously it would have required 5,000,000 men. At Sprowston, near Norwich, there is a mechanical planting equipment. It has been used for cabbages, celery and strawberries, and it sets and waters plants at the rate of 12,000 an hour. In the Fen district it has actually planted celery at the rate of 25,000

plants an hour, 7 plants a second. An experienced hand planter could plant no more than 700 an hour.

"Turning to cigarettes — using modern equipment, 3 employees have an output equal to that of 700 hand-workers. They can turn out 12,000 cigarettes a minute, or 700,000 cigarettes an hour.

"With regard to clothing, the average weight of the fleeces of wool in Australia has increased during the past 70 years from 2½ lbs. to over 8½ lbs. When that wool comes to the knitting machines, there is a machine in operation to-day which makes 3,000,000 in the time in which 300 would be done by hand; and one girl, tending 25 automatic machines, can produce 3,600 pairs of socks in a day.

"There is a machine in existence at Los Angeles which produces boots and shoes with the assistance of two men. These two men require two helpers and a few operatives for odd jobs. The interesting feature about this machine is that it can turn out 1,000 pairs of boots or shoes per day.

"Near New York, at Corning, there is an electric lamp manufacturing plant which has an output of 650,000 lamps per machine per day, an increase over handicraft of 10,000 times; and one of these machines can be built in six weeks by 37 men. The Redfern glass bottle machine, which has a rotating weight of 40 tons, has an output of 400,000 quart bottles or 1,000,000 pint bottles per week. Fifteen men, operating in three shifts of five each, have charge of this machine, and each machine displaces 300 men and boys. It may be of interest to some of you to know that the first two of these machines ever sold were sold to Japan. In 1880 the maximum production from a blast furnace was 1,200 tons a week. Now there are blast furnaces with an output of 1,000 tons a day. During the past fifty years the production of steel has increased from 4,000,000 tons a year to 90,000,000 tons a year. In the case of rolling mills, a mill used for the rolling of sheet bars has an output of 700 tons a day. Two of these mills were recently supplied to Japan. In the production of bolts, where automatic machinery is particularly suitable, one machine operated by one man and one boy can do the work which was formerly done in the handicraft era by 6,000 men. Compared with the handicraft era, that machine saves 17,000 pounds a week in wages. In the Wolseley motor car works there is a machine which drills the holes in the crank cases. There are 70 holes altogether. Some of them are vertical and some horizontal, but they are all drilled in one operation, and the whole of them are drilled in just 60 seconds. The Smith Corporation of Milwaukee in the United States is practically one huge machine. It produces one commodity, and that is chassis frames for motor cars. After 500 separate operations a complete chassis frame is delivered to the stacking plant every 8 seconds. The output of that plant when it is in full operation is 10,000 chassis frames a day. Thirty years ago the output of the factory was 10 chassis frames a day. The staff of that factory numbers 208 men. In 1904 about 1,290 man-hours were required to produce a motor car. In 1929 the man-hours required to produce a car were 92.

> "It is estimated that if the resources of the United States were fully used they could supply all the needs of five times the number of people at present existing on the earth."
>
> —A. L. Gibson, F.C.A., of England, speaking in the Central Hall, Westminster, London, England, in 1935.

It should be obvious that any system which is directed towards deliberately substituting automatic and semi-automatic processes of production, rendered possible by the application of solar energy in place of the toil of human beings, and which thereby releases them for other activities, while at the same time condemning those thus released to a condition of economic indigence, is a system deserving severe condemnation and immediate adjustment. The disastrous result is that those released from the imposed necessity to toil in industrial production instead of being in a better economic position, and the community as a whole benefiting from the increased productive capacity, have become "wageless" and unable to obtain a share in the increased production; hence the entire community has its consuming powers curtailed and is, therefore, unable to supply its members with needful goods and services.

Moreover, it should be noted that the existence of unemployment in a sparsely populated and undeveloped country like Canada is wholly inexcusable. In the opening up of a vast country with such enormous resources there should be no such anomaly as unemployment coincident with poverty. This is expressed with convincing force in The Report of the Economic Crisis Committee of the Southampton (England) Chamber of Commerce, issued in 1933,—

> "It is taken for granted that an unemployed person should be destitute and a burden on the rest of the community. He is not engaged in production, neither is he rendering a valuable service. Therefore, it is argued that he should not receive an income to enable him to participate in the economic life of the community except, in so far as this country is concerned, to the extent of not being permitted to starve. Yet any consideration of his position is startlingly paradoxical,—
>
> > "Either an unemployed person is without work because we are already producing sufficient without his services being required, in which case he is poor because there is an abundance of goods and services available.
> >
> > "Or he is in want because the available wealth is not sufficient to provide for the satisfaction of his needs, in which case it is difficult to explain away why his services are not being utilized to produce more.

> "Thus, from whatever angle it is viewed, we have the situation of widespread industrial trade stagnation with producers capable of production, and millions in want of the very things which can be produced in abundance."

The fact is that the majority of the people of Canada are in want of the very goods and services which, with the vast resources of the Dominion, could be produced in abundance. Yet they have to surrender a portion of their already inadequate incomes in order to provide those unemployed with goods and services which their unused labour could produce. Such a state of affairs can but be condemned as bordering upon social insanity.

Yet the economic system which is responsible for this yields equally fantastic anomalies in other respects. An outstanding example is taxation.

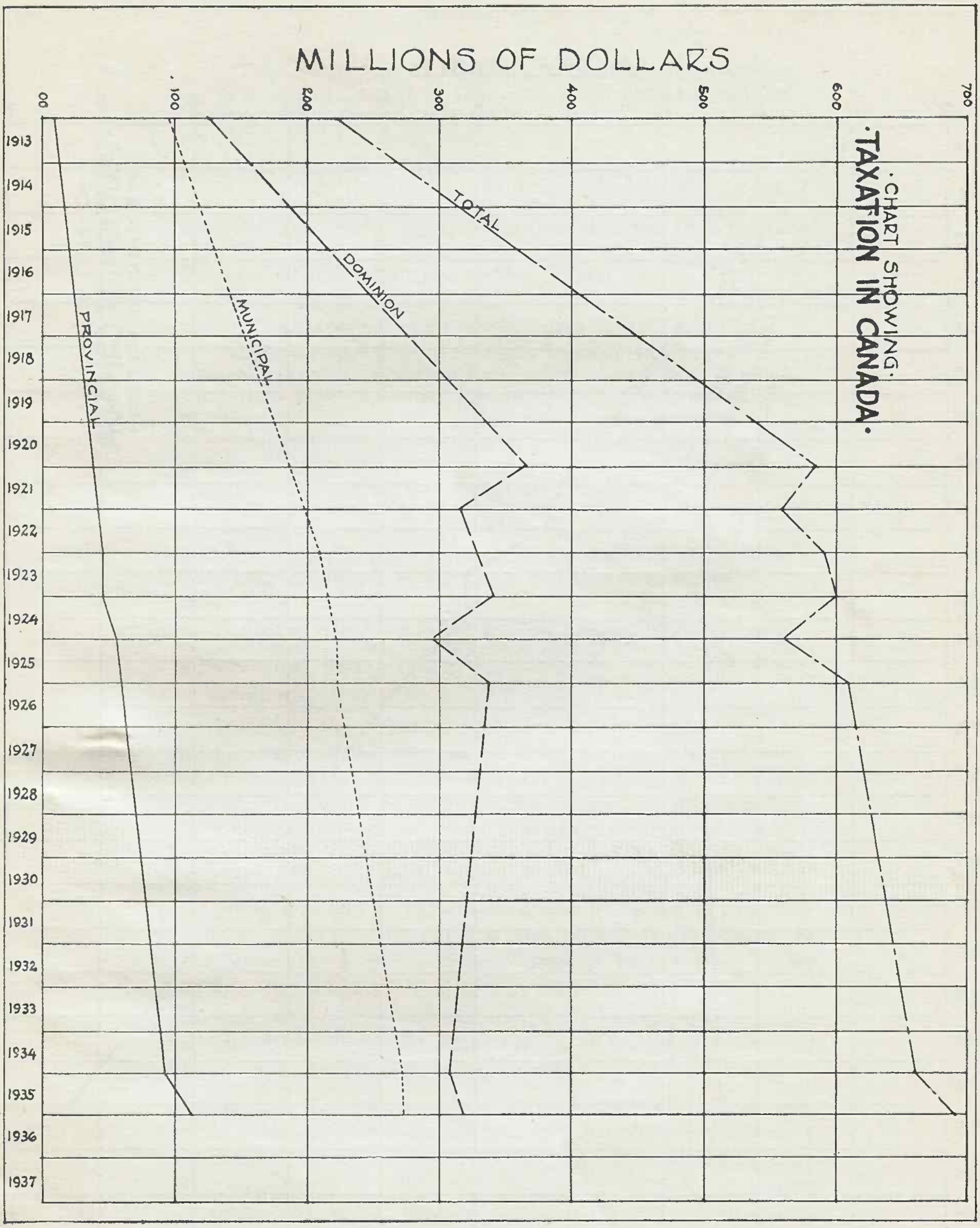
TAXATION

There is no more widely detested aspect of the machinery of government than modern taxation. The resentment of taxpayers to an increasing imposition which robs them of a large percentage of already inadequate incomes, and thereby renders them more insecure, has created a situation in which taxation is imperilling the fabric of government and, in Canada, endangering confederation.

The following extract from an editorial in MacLeans Magazine for June 1st, 1937, is indicative of the growing concern regarding the increase in taxation, which is a natural result of the present financial system common to most countries:

> "Startling evidence of the extent to which cost of government in Canada has risen in ten years is afforded by a compilation issued recently by the Citizens' Research Institute.
>
> "In 1925 it took $751,685,000 or approximately three-quarters of a billion dollars to operate all Canadian governments.
>
> "In 1935—the last year for which complete returns are available — it took more than a billion. To be exact, $1,091,000,000.
>
> "These figures represent in each case the aggregate current expenditures of Dominion, provincial and municipal governments, including school boards and commissions.
>
> "These are worth pondering.
>
> "During the ten-year period population increased by 18 per cent. Government expenditure advanced 45 per cent.
>
> "In 1925 government expenditure averaged $80.89 per person. In 1935 the bill was $99.66 for every man, woman and child in the country.
>
> "In 1925 cost of government absorbed only 14.3 per cent of the national income. In 1935 government expenditure absorbed 26.6 per cent of the national income.

—Continued on p. 15.



·CHART SHOWING·
·TAXATION IN CANADA·
MILLIONS OF DOLLARS
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TOTAL
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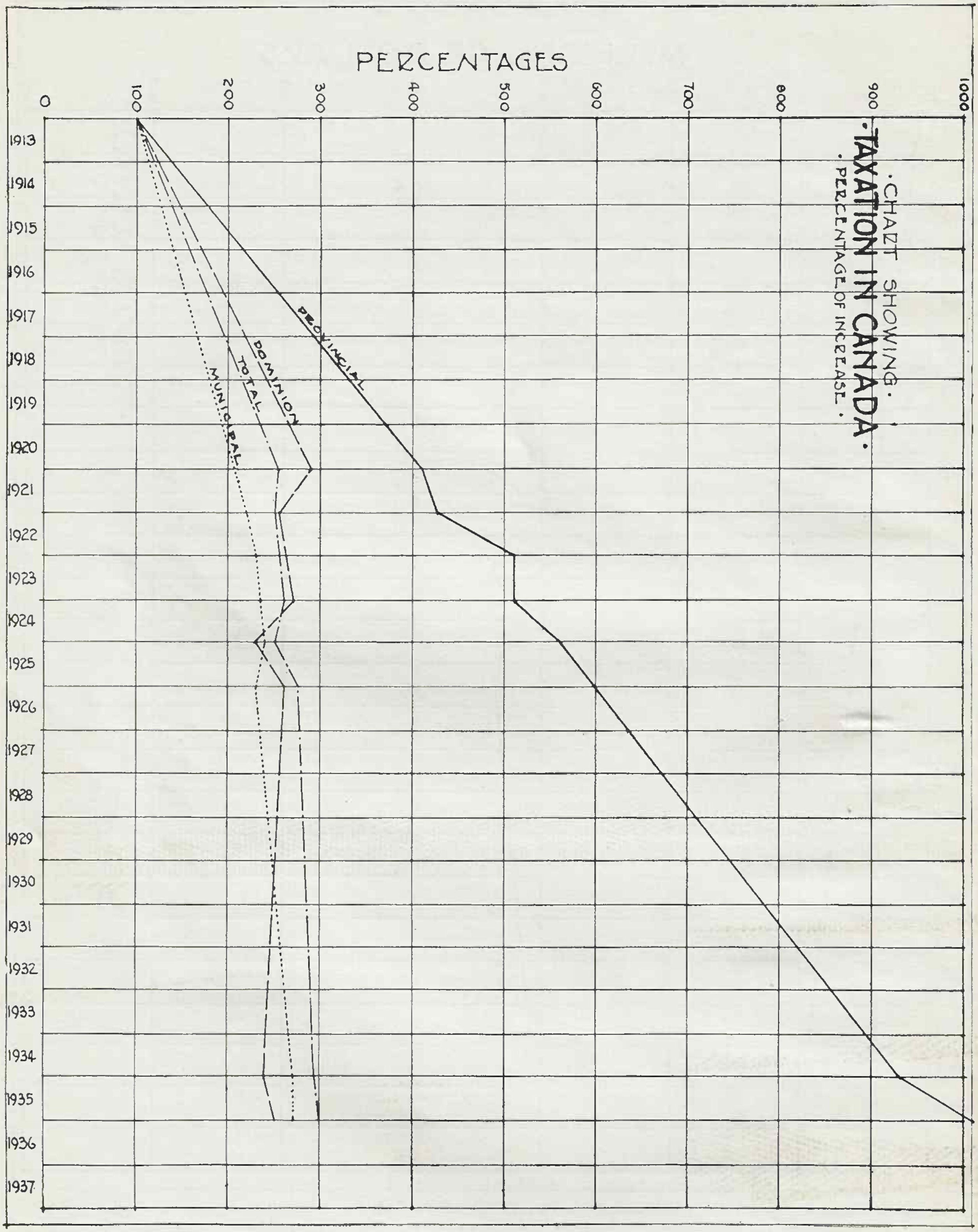
PROVINCIAL



PERCENTAGES
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·CHART SHOWING·
·TAXATION IN CANADA·
·PERCENTAGE OF INCREASE·
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"This means that out of every $100 of income accruing to the people of Canada in 1935, cost of government claimed twenty-six dollars and sixty cents.

"One dollar in every four.

"The only solace to be drawn from this ratio is that it is not as high as it was three years ago. In 1934 the proportion was $31.60 to every $100. Preliminary estimates for 1936 indicate a still further reduction below the 1935 figure.

"This is all to the good. But government costs are still away out of line with those of the 'normal' year of 1925.

"Why the increase?

"Where are we spending the extra $340,000,000?

"Debt charges are one factor. In 1925 they were $220,000,000 (excluding education). In 1935, $311,000,000. That item alone accounts for more than a quarter of the increase.

"Expenditure on education, incidentally, actually declined. During the ten-year period it dropped two and a half per cent, despite the growth of population.

"When it comes to 'Public Welfare', however, there is a vastly different story to tell. Listed under this heading are, health and sanitation, old age pensions, mothers' allowances, hospitals, charitable institutions and direct unemployment relief.

"And between the years 1925 and 1935 government expenditures on Public Welfare expanded from $41,700,000 to $207,500,000, *an increase of 397 per cent.*"

As the figures in the quotation indicate, increasing taxation is very largely the result of increased indebtedness and rising expenditures on social services. It is but another anomaly of the present financial system that as a country becomes wealthier in terms of development of its physical resources, its people become poorer financially—poorer in the sense that with the increase of national wealth, their collective indebtedness increases and this forms an increasing drain on their incomes. An increase in wages does not relieve the situation for them, for yet another feature of the system is that any such income increase must be accompanied by a rise in prices, leaving them in no better position. In fact an increasing debt structure with rising prices places the people in a worse position, for when the rise in prices has to be checked by deflationary action, an economic depression with all its consequences is precipitated.

Similarly a system which condemns to destitution those who become unemployed because of progress in productive processes renders it necessary for governments to seek increased revenue for social services to relieve the resulting indigence. However, a government dare not increase taxation beyond certain limits, and it is driven to yet further borrowings. This, in turn, demands still further revenue for interest and sinking fund purposes—and so the vicious spiral continues presumably until the situation becomes intolerable and the system breaks down.

The limit of human endurance to the acceptance of modern taxation methods is being reached in Canada—and in particular in the Prairie Provinces. Dominion, provincial and local taxes have reached a point where the taxpayer cannot meet the demands being made upon him. Tax arrears accumulate and the consequent result is inadequate revenue for the government authorities concerned, and rebellious resentment of an over-taxed public. Yet every government throughout the Dominion is faced with a totally inadequate source of revenue.

Monetary inflation is no cure for such a situation—for inflation is essentially an increase in money supply with a corresponding or greater increase in the price level. Any such increase in prices imposes upon governments the necessity to obtain additional revenue. The only easment that would result would be in respect of fixed debt charges. However, even this temporary advantage would be offset by the consequences of an attempt to check the rising price level by orthodox means of deflation.

An examination of taxation from a common sense point of view—that is from an aspect of the physical realities involved—yields the inescapable conclusion that modern taxation methods are as unnecessary as they are socially undesirable and dangerous.

Taxation is a device whereby a governing body secures revenue to carry out public services. The purpose of this revenue is to provide incomes to those serving the community and to obtain materials for certain public works. (For the moment debt charges are excluded as this subject is examined fully later.) Those serving the community in government service require incomes to obtain goods and services. In short, by means of taxation the community as a whole surrender claims to goods and services, and these are redistributed to those rendering public service or are used to secure materials for public works or to enable the indigent to obtain a share in the products available.

It will be observed that this pre-supposes that there is a limited supply of goods and services available to the community, and that monetary claims on this are distributed to those members of the community who receive incomes from economic activity. On such an assumption it is obvious that the requirements of government must be obtained by those in receipt of such monetary claims on an equitable basis—and taxation is designed to achieve this.

But the assumption is incorrect. The basic premise on which the structure of taxation is built is wrong. We know that in Canada, for instance—and this applies particularly to Alberta—the potential capacity to produce goods and services is many times greater than present production. The goods and services which *could* be produced, but the production of which is at present restricted, would provide a source from which the requirements of all who are giving service to the public could be supplied, without taking from the already inadequate amount available to the people at present. In short, there is no *physical* reason for taxation as operated at present.

This in itself is sufficient evidence to condemn the entire system of modern taxation. It can hardly be argued that the human mind, which has given mankind the amazing inventions available to us, would be incapable of devising a system which will reflect physical facts, instead of denying them and thereby causing unnecessary hardship and endangering the fabric of social life.

However, condemnation cannot be confined to the system of taxation, for this is but an expedient to which governments are driven under stress of the financial system. The inexplicable anomaly of indigent unemployment in an economic environment of abundant potential productive resources, the widespread poverty, throughout the Dominion and every industrialized country, the growing insecurity and the loss of freedom resulting from the fantastic debt structure and economic stress all go to indicate that the disease is rooted in the financial system.

THE ROOT CAUSE OF OUR TROUBLES FINANCIAL

It is apparent that there is nothing very amiss with our ability to produce. This Province and the entire Dominion have resources sufficient to provide complete economic security for every man, woman and child within their respective boundaries.

Shops can be filled as fast as they are emptied, stocks can be replenished as fast as they are depleted. All the factories, all the roads and all the houses which the people may require can be built. The problem is to obtain markets for production. Every producer knows this, yet consumers cannot obtain access to the limited production at present coming on the market. Not that the desire to purchase the goods does not exist. The desire and the want are there, the knowledge and the resources to satisfy the want are there also, but the people cannot get the goods because they do not possess the money to buy them.

From whichever angle the matter is approached it is obvious that there is some radical defect in our financial system, which results in production being restricted in the midst of want, in huge debts with no possibility of ever meeting them, in increased taxation beyond the people's ability to pay, and generally in that state of affairs which is termed "poverty amidst plenty".

The financial system of Canada is basically the same as the financial system of most countries. Any differences which may exist are of minor importance and do not affect the system as such.

Like other countries, the financial system of Canada is controlled through a central bank—the Bank of Canada, which by its manipulation of currency issue and by its open market operations can direct the entire financial arrangements throughout the Dominion. This is reviewed in the next chapter.

CHAPTER III.

The Financial System

Before proceeding to a further investigation of the financial system as a whole, it is desirable, particularly, to consider the nature of money.

Money has been defined as anything which, no matter of what it is made, nor why people want it, has reached such a degree of acceptability that no one will refuse it in return for his product, if he is a willing seller.

Money was originally, and still remains essentially, tickets or instruments of a recording system, whether in the form of metal discs, stamped bills or pieces of paper representing merely figures recorded in ledgers which are transferred from one account to another. It is its *function*, and not its form, which is all important. Its function is to facilitate and to stimulate the proper fulfillment of economic activity, namely, the production and distribution of goods and services as, when and where required. It contributes also towards the achievement of the overriding social objective of gaining maximum personal security and personal freedom for all. That money has become divorced from its true function is only too apparent from the fact that the financial system which has been operating for a number of years has yielded the opposite results to the social objective desired.

In Canada, as in other countries, the basis of the monetary system is cash—or tangible money.

This consists of notes and coins. Control of the issue of these rests with the Bank of Canada—and, in the circumstances which exist, full responsibility for the operations of the Bank of Canada must be assumed by the Dominion Government, which purports to exercise an over-riding control.

However, the cash controlled by the Bank of Canada is but a part of the money which serves the requirements of the Dominion. This part is used for but a small fraction of money transactions. The greater amount of purchasing and trade payments is carried out by the non-tangible form of money termed financial or monetary credit. This is done by means of "orders to pay", familiarly known as "cheques", which transfer figures representing money from one account to another in bank ledgers.

Money, as tickets to goods, is related to them by means of a costing system of prices. The goods come on the market at certain prices, and these prices determine the number of monetary units which will purchase an article. Purchasing power is the ability of the consuming public to meet these prices of goods with money.

It follows that, in order to purchase its production, the total money available to a community as purchasing power must at any given time equal the total prices of goods for sale on its markets.

Now, the entire arrangements for the issue and distribution of money is in the hands of the banking system, consisting of a central bank controlling and dominating a network of centralized commercial banks. These institutions have monopolized the issue of money; *i.e.*, all money issued to the public is created by the banks, and moreover, all money is issued to the public as a debt owing to the banks and repayable on demand to them.

Prior to the establishment of the Bank of Canada as the central and controlling institution, the Dominion Government and the commercial banks issued currency notes. That is to say, they alone were legally entitled to print and issue pieces of paper which passed as money. However, this right has been curtailed so far as the banks are concerned and gradually the right of note issue is being centralized in the comparatively newly-created Bank of Canada, thus giving the Bank of Canada complete control of the financial structure.

The legal tender or currency forms the basis for the much larger proportion of money issued in the form of financial credits. Apart from a statutory obligation to maintain a reserve of not less than 25 per cent of its note issue and of its deposit liability in Canada in gold coin, bullion, foreign exchange, securities of the United Kingdom and United States and bills of exchange (the two latter categories having certain limitations), the Bank of Canada may issue notes to any amount. In the main it controls the note issue by buying or selling securities in the open market and discounting securities and commercial bills. In short, it obtains an obligation for the payment of money by the community in exchange for issuing pieces of printed paper which form the basis of the country's money supply—thus currency is issued as a debt which the bank can recall by the sale, in the open market, of securities against which it was issued.

This tangible money or currency forms the small change in the monetary transactions of the community. Some of it remains in constant circulation. The balance remains in the tills of the banks and forms the base for the main monetary issue of financial credit.

This intangible credit money is created and issued by the commercial banks, mostly in the form of loans to customers and, to a much smaller extent, in purchasing securities and discounting bills. By experience and tradition banks usually confine their issues of financial credit to about nine times their cash holdings and deposits with the central bank. The manner in which this is done has been admirably stated in the Report of the MacMillan Committee of Great Britain on Finance and Industry in 1931. In sections 74-76 it states,—

> "74. It is not unnatural to think of the deposits of a bank as being created by the public through the deposits of cash representing either savings or amounts which are not for the time being required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities a bank creates a credit in its books, which is the equivalent of a deposit. A simple illustration, in which it will be convenient to assume that all banking is concentrated in one bank, will make this clear. Let us suppose that a customer had paid into the bank £1,000 in cash and that it is judged from experience that only the equivalent of 10 per cent of the bank deposit need be held actually in cash to meet the demands of customers; then the £1,000 cash received will obviously support deposits amounting to £10,000. Suppose that the bank then grants a loan of £900; it will open a credit of £900 for its customer, and when the customer draws a cheque for £900 upon the credit so opened that cheque will on our hypothesis, be paid into the account of another of the bank's customers. The bank now holds both the original deposit of £1,000 and the £900 paid in by the second customer. Deposits have thus increased to £1,900 and the bank holds against its liability to pay out this sum (*a*) the original £1,000 of cash deposited, and (*b*) the obligation of a customer to repay the loan of £900. The same result follows if the bank, instead of lending £900 to a customer, purchases an investment of that amount. The cheque which it draws upon itself in payment for the investment is paid into the seller's bank account and creates a deposit of that amount in his name. The bank, in this latter case, holds against its total liability for £1,900 (*a*) the original £1,000 of cash, and (b) the investment which it has purchased. The bank can carry on the process of lending, or purchasing investments, until such time as the credits created, or investments purchased, represent nine times the amount of the original deposits of £1,000 in cash.
>
> "75. The process is much the same when we remove the assumption that there is only one bank. The credit granted by one bank may reach the accounts of customers in another bank. There is thus established a claim by the second bank upon the first for cash, and the ability of the second bank to grant loans is improved in so far as that of the first bank is reduced. Over the banking system as a whole, therefore, loans and investments made by the banks increase their deposits. There is, however, a limitation on this process. A bank which is actively creating deposits in this way will

naturally find that a considerable part of the cheques drawn against them will be in favour of other banks. It will thus lose part of its cash reserve to those banks and must proceed to limit its loan operations if its normal cash ratio is to be maintained. In practice, therefore, no one bank can afford to pursue a policy of creating deposits by making loans or investments which is much out of line with the policies of other banks.

"76. The cash which the banks hold is partly in the form of bank notes and coin maintained in tills and reserves to meet current demands by customers and for exigencies, and partly in the form of a deposit with the Bank of England—the bank of the bankers. The latter credit affords first the means of settling day to day balances between banks and secondly the means of obtaining any further supplies of notes or coin that they may need for current use. A further cash item is represented by balances with other banks and cheques on other banks in course of collection. These claims on other banks, which are settled within a day or two, usually amount to about 3½ per cent of the deposits, varying of course with the amount of business done by the bank."

Latterly there has been considerable argument on this question of financial "credit creation" by the banks and in this connection it is interesting to note the following categorical statements of two outstanding orthodox authorities:

(1) "The essential and distinctive feature of a 'bank' and a 'banker' is to create and issue credit payable on demand, and this credit is intended to be put into circulation and serve all the purposes of money. A bank, therefore, is not an office for borrowing and lending money, but it is a manufactory of credit. The student must, therefore, carefully observe that, in the language of banking, a deposit and an issue are the same thing. A deposit is simply a credit in a banker's book giving the customer the right of action against him for a sum of money. . . ."

—*Theory and Practice of Banking,* by H. D. Macleod.

(2) "When a bank lends it creates money out of nothing. The borrower becomes indebted to the bank for a sum to be repaid in the future with interest and the bank becomes indebted to the borrower for a sum immediately available."

—R. G. Hawtrey, Assistant Secretary, H.M. Treasury of Great Britain, in *Trade Depression and The Way Out*".

The following extract from "Cash and Credit" by D. A. Barker (Cambridge University Press), gives a clear explanation of the manner in which the financial credit system, not only in Britain, but in Canada and every other country with an orthodox banking organization, operates:

"We must now consider the nature of the business transacted by a typical banking institution situated at a monetary centre such as that described in the last chapter, and for such information we turn naturally to the balance sheets periodically issued by the bank for the benefit of the public. These balance sheets, however, contain on both sides details which are not essential to the limited scope of this chapter and which may, therefore, for our present purpose, be omitted. In its most simplified form the balance sheet may be represented as follows:

Liabilities		Assets	
Deposits of customers	£20,000,000	Cash	£ 4,000,000
		Investments	2,000,000
		Loans to customers	14,000,000
	£20,000,000		£20,000,000

"To avoid the complications which would arise if we had to consider transactions between many different banks, we will suppose that this represents the consolidated balance sheets of all the banks at our monetary centre; the items shown here being simply the totals of similar items in the individual balance sheets. The total liability of all the banks, then, amounts to £20,000,000 and against this liability they can show £4,000,000 of actual cash, £2,000,000 invested in securities, and £14,000,000 lent to customers.

"Firstly, then, as to the item 'deposits of customers',—

"To the average non-commercial man a bank is merely an agency for keeping his spare cash and for collecting the money due on cheques payable to him. For him, a 'deposit' really is a deposit, and the use of such a word naturally leads him to believe that the sum of £20,000,000 entered under this description has actually been deposited in the banks by their customers. But the nature of his mistake is revealed by considering the case of the commercial man who wished to borrow from a bank. This would-be borrower, we will suppose, is an enterprising man and asks for a good round sum, say, one million sterling; in which request the bank manager good-naturedly acquiesces. Having obtained his loan, the borrower has to decide what to do with it. He might, in very unusual circumstances, ask for cash down, but, as a general rule, the bank will give him a credit on its books, and he will draw cheques against that credit as necessity arises. What will be the effect of this transaction on the balance sheet? If he asks for cash the item 'cash' will be reduced by one million sterling and the item 'loans to customers' will be increased by a similar amount, thus,—

Liabilities		Assets	
Deposits of customers	£20,000,000	Cash	£ 3,000,000
		Investments	2,000,000
		Loans to customers	15,000,000
	£20,000,000		£20,000,000

But if he merely accepts a credit in the bank's books the change will be as follows:

Liabilities		Assets	
Deposits of customers	£21,000,000	Cash	£ 4,000,000
		Investments	2,000,000
		Loans to customers	15,000,000
	£21,000,000		£21,000,000

"In this latter case we see that there has been a change on both sides of the account, and that the items 'deposits of customers' and 'loans' have both been increased to the extent of one million pounds. This is, then, the important point, that a loan by the bank to a customer increases the item 'deposits', and that 'deposits', therefore, are not made up, as they might seem to be, merely of idle balances and savings, but also of credits given by the bank.

"But we have not yet arrived at the end of the transaction. The borrower would not have asked for a loan unless he wishes to spend the money, so we may presume that he will shortly draw cheques on the lending bank to the amount of one million pounds. In consequence of this, his credit for one million will be extinguished and the amount of 'deposits' of customers at that bank will be reduced by a similar amount. But if, as will very likely be the case, the cheques drawn by the borrower are payable to residents in the same monetary centre, the recipients of the cheques will send them to banks of this centre and the amount of customers' deposits at these banks will be increased by the sum of one million pounds. Considering all the banks of this centre as one, we see, therefore, that the consolidated balance sheet will still show 'deposits of customers' to the amount of twenty-one million pounds. It may be objected that some of the cheques drawn by our millionaire borrower might have been sent to persons resident in the country and paid by them into a country bank. But even then, owing to the tendency of money to collect at the monetary centre, the country banker would probably use the cheque to obtain a credit for that amount with his central agent, and the result would be the same as if the cheque had originally been paid into one of the central banks. Even if the borrower wishes to use his credit to pay a creditor living in a foreign country he will do so by buying a bill on that country from a bill-merchant, and will pay for the bill with a cheque. The bill-merchant will pay that cheque into his banking account, and so, as before, the sum total of customers' deposits remains at the amount of twenty-one million pounds. Twist the matter as we may, the loan of one million has increased customers' deposits by an equal amount."

CHAPTER IV.

A Faulty Financial System

In order to understand the operation of the financial system it is necessary to have a background in regard to how production is financed and the manner in which the system of money operates to distribute the proceeds of economic activity.

The productive system—which, for purposes of this examination is taken to include all production, distribution and transport organizations—serves a threefold function. It produces goods and transports them to the points where they are wanted; in the process it distributes purchasing power in the form of wages, salaries, profits and dividends; and it collects expended purchasing power through the agency of prices when the goods have been delivered to the public for consumption.

In the first instance, money originates as loans from the banks to producers, and is then distributed to the public through the productive system. Having served its purpose in getting goods to the consumer, it is collected and returned to the banks in repayment of their loans.

The process is summarized in the Report of the Economic Crisis Committee of the Southampton (England) Chamber of Commerce, to which previous reference has been made,—

> (*a*) Industry mortgages its capital assets and secures the money necessary to enable it to pay wages, salaries, buy raw material and meet its overhead costs in the form of credit loans from the banking system.
>
> (*b*) In the process of producing goods, it distributes wages, salaries, dividends, and profits which filter through as money incomes to the entire community.
>
> (*c*) The goods subsequently come on the market with price labels attached to them to include all the costs of production.
>
> (*d*) The community acquire the goods in return for their money, which filters back through the productive system for the cancellation of the credit loans originally created by the banking system.

The important feature to be noted in this arrangement outlined above is that a producer or distributor, whether he is operating on bank loans or on his own reserve of capital, must recover through prices *at least* all the costs which he has incurred, otherwise he will be unable to repay his loan or replace his working capital.

Therefore, while the upper limit of prices will be determined by "what an article will fetch", as it is termed, the lower limit of prices is determined by cost. In a highly competitive system the limiting factor of cost is the more important.

In the process of producing goods and marketing them, the productive system distributes incomes in the form of wages, salaries and profits. Collectively these incomes form the "purchasing power" of the community. This purchasing power will vary according to the amount of money distributed in the processes of the production and of the marketing of goods for consumption in relation to the prices charged for those goods.

Once the consumers part with money in exchange for goods, in the aggregate and apart from that portion of price which represents the final sellers profit, this money will cease to be purchasing power. It will go either to repay a bank loan or to replenish depleted capital. In both instances the money is immobilized as purchasing power, and can be reissued as such only in respect of new production coming on to the market.

In passing it should be noted also that all money saved is immobolized purchasing power during the period of saving.

Owing to the manner in which money is distributed to the community, somewhere in the productive system costs have been carried into prices to an amount of such savings and, therefore, the act of saving leaves these goods coming into the market without purchasing power to liquidate the corresponding costs. The effect of the investment of such savings is realt with later.

Modern productive methods involve serial production, that is to say, a product goes through a number of processes. Between the stages all the costs incurred, including wages, etc., go into price as the product moves from one process to the next. The total costs incurred throughout have to be recovered in the final price of the product when it comes to the consumers market.

At this point it is necessary to digress for the purpose of considering another aspect of the question. It has been shown that the public becomes indebted to the banks for all money issued to it. In the main this is issued in the form of loans for productive purposes—and the banks charge interest on these loans. It will be obvious that unless the public are *given* the money to pay this interest beyond the amount distributed by the bank as salaries and dividends, they are in the impossible position of being required to surrender money to the banks which they do not possess. In other words, as all money is issued in the form of loans—in the last resort—and interest has to be paid on these loans, the amount required to be repaid to the banks must always be in excess of that issued. This must result in the public becoming increasingly indebted to the banks.

Again, producers do not distribute money beyond the ordinary costs of production. Yet they must recover all these costs and, in addition, a profit as wages for their service to the community. Because of the serial processes in production, in theory, primary producers are reimbursed by those taking over the semi-processed product against which credit loans are made by the banks. But this is not true of the last person in the chain —the final retail distributor. He must try to obtain more money from the public than has been distributed to it—for, in addition to all incomes distributed and forming part of the ultimate cost which determines price, he has to endeavour to collect a profit.

However, these obvious flaws which result in the distribution of inadequate purchasing power to enable production to come on the market and all costs to be liquidated in the process, are but insignificant beside a glaring fault in the financial system which, if permitted to continue unchecked, is likely to bring about the collapse of the entire economic structure of civilization.

The section which follows is devoted to an examination of this fundamental aspect of our financial system.

A SHORTAGE OF PURCHASING POWER

Production falls into two groups—capital goods and goods for ultimate consumption.

The purpose of production is to provide consumers with ultimate commodities. Capital goods—factories, plant, tools, railways, etc.—are but the means for gaining more efficient production of ultimate goods and transferring these to consumers.

The public acquire their purchasing power from the wages, salaries and profits distributed in the production of both types of goods. As shown earlier these payments originate in loans from banks, and these loans are repaid when the public surrender their money in return for goods.

The purchasing power distributed to the public as wages, salaries and profits, whether in respect of capital production or the production of consumers' goods, must be ultimately recovered by the producer through prices. However, the costs of capital goods production are collected over a period of years; in most cases through the depreciation and replacement charges carried into the prices of ultimate commodities. Bank loans are, in the main and apart from the financial credits released by the purchase of securities by banks, made for short terms. This is demonstrated in the following table showing total deposits and total bank clearings for the years 1933 to 1936, inclusive:

Year	Bank Clearings (Canada)	Bank Deposits (Canada)
1933	$14,720,611,029	$2,236,841,539
1934	15,964,625,887	2,274,607,936
1935	16,922,482,123	2,426,760,923
1936	19,206,136,676	2,614,895,597

Reference—Re Bank Clearings: "Monetary Times", 1938. Re Bank Deposits: "Canada Year Book", 1937.

These figures indicate that after making full allowance for all the factors involved, the average credit cycle—the life of a bank-created credit loan—is only a few weeks.

Therefore, financial credits in the form of bank loans are not available for financing capital production until its costs can be collected through prices.

Capital production is financed by savings and investment. Even if the various processes of capital goods production are financed by short-term bank loans, they are established on a basis of permanency by the savings of the community being invested in the undertaking. For example, the production of bricks, machinery, and so forth, might be financed by short-term bank loans, the wages, salaries and profits flowing into the "purchasing power pool" of the public. But the erection of the factory is finally effected by the public investing their savings in the undertaking. The result of this is to take back from the financial resources available to the public as purchasing power, all that was distributed to it through wages, etc., in the production of the capital goods involved, and the money goes to repay the short-term bank loans, thus leaving the public with a factory, but no money equivalent to its cost value.

The public owns a factory, but there is nowhere in their possession the money or financial credit equivalent to its cost. Presumably the theory is that there need not be as the public have, in effect, purchased a factory and therefore the equivalent amount of purchasing power should be immobilized or cancelled. However, this view is fundamentally false, for having already paid for the factory once (by savings drawn from the community's pool of purchasing power for investment), the public are charged with its cost again in the depreciation and replacement charges included in the price of the ultimate products produced. In short, while the cost of the factory is debited to the community as it wears out, at no time is the community provided with the financial credits for liquidating the debt. And this is true of all capital production.

A more accurate conception of the effect of this feature can be obtained by bearing in mind the dynamic nature of economic activity. This can be viewed as a flow—and relating this to the two chief functions of the productive system, we can imagine two streams; the first a stream of goods bearing prices made up of all the costs involved in production, including depreciation on costs in respect of capital assets; and the second is a stream of purchasing power (wages, salaries and profits), which is being continuously depleted by savings going to finance new production higher up the stream. It will be readily seen that the rate of flow of prices attached to goods coming on the market will be greater than the rate of flow of purchasing power to the public.

While the foregoing indicates the manner in which a chronic shortage of purchasing power is caused, it does not reveal the extent to which this defect exists. Owing to the complicating factors in considering a dynamic economic structure, the proposition is not easy to grasp, but the matter is of such tremendous importance that it is well worth the close study which it demands.

In order to simplify the argument let us consider a period of, say, a year, without reference in the first instance to what has happened in preceding years in regard to the factors involved. During the year the community will receive as purchasing power the wages, salaries and profits distributed during the production and distribution at all stages of both capital and ultimate consumers' goods.

An amount of purchasing power at least equal to that distributed in the production of capital goods will be absorbed by capital investments, for it is only by the investments of the community, either directly or indirectly, that these capital products will be placed on a basis of permanency, and this is the purpose for which they are produced.

Also, purchasing power distributed during all stages of production and distribution of ultimate consumers' goods constitute costs which must be recovered through the prices of these goods.

Therefore, the entire purchasing power distributed during this period will be absorbed—by capital investments and in respect of the purchase of ultimate consumers' goods.

In other words, in any such period the community is required to surrender purchasing power equivalent to the price value of its total production for the period.

However, in considering the matter in regard to a period isolated from a continuous process, allowance must be made for the specific factors involved not necessarily taking place within this selected productive period—but the purchasing power distributed in this period will, unquestionably, be absorbed in respect of the total production for the period, as shown above.

We must next observe that the costs of capital production will be carried forward and will enter into the prices of future production of ultimate consumers' goods, but since the entire purchasing power distributed to the community via wages, etc., has been absorbed during any given period, these capital costs can never be met out of purchasing power.

Yet, this is not all. Similar costs carried forward from past capital production will enter into the prices of goods produced during the period under review. Morever, these costs will be included in the prices of capital, intermediate and ultimate products. Obviously they cannot be met with the purchasing power distributed. The resulting deficiency of purchasing power must be carried forward as an accumulating debt if the products are to be marketed.

In considering this question it is well to bear in mind that money saved and invested, even if redistributed, ceases to be purchasing power in relation to the costs which its original distribution created. It will be redistributed only in respect of *new* production involving the creation of *new* costs. However, as all money reaches the community in the form of loans from the banking institutions, the surrender of purchasing power generally results in the cancellation of the money by the repayment of bank loans—and, in the final analysis always does so.

An argument which has been advanced against these contentions is that the inclusion of capital costs in the prices of ultimate consumers' goods in depreciation and similar charges does not cause any shortage of purchasing power as concurrently the products to make good the depreciation are being produced and wages, etc., are being distributed in the process. This argument is not tenable. In the first place it ignores the time factor, for the capital costs carried into prices of ultimate consumers' goods are for the purpose of creating reserves in advance of replacements for depreciation. In the second place, the argument ignores the fact that the prices of goods to replace worn out capital products are similarly loaded with past costs. In the third place, no account is taken of the fact that the provision made for depreciation is disproportionate to actual capital goods replaced on account of the rate at which industrial expansion takes place.

However, any doubts about the matter will be removed by approaching it from another angle.

As economic progress in our time is accompanied by capital expansion, the accumulation of capital production costs carried forward for liquidation into prices of future ultimate goods increases progressively from year to year. It follows that in order to meet this increasing volume of capital charges appearing in the prices of ultimate goods, the community should have an increasing amount of money from year to year. A more or less fixed quantity of money would provide only for a non-expanding economy. It would be indicative of a condition in which the community's total production and total consumption of capital and ultimate goods are balanced from year to year.

However, knowing that our economic structure is expanding and that production from year to year is in excess of consumption for the corresponding period—the accumulating unconsumed capital production being carried forward—if we find the quantity of money available to the community does not reflect this, but has remained more or less stationary, it is proof that the purchasing power available to the community has been insufficient. Reference to bank deposits for, say, the last twenty years, will reveal that they do not show a steady and cumulative increase. In fact they do not even reflect stability.

There can be no possibility of doubt, if the evidence is examined dispassionately, that the present financial system produces a chronic and increasing insufficiency of purchasing power.

Reference back to the manner in which this defect arises will show that in any period of time the community is, in effect, charged for its total production, leaving it without the monetary capacity to meet the costs of unconsumed production carried forward for liquidation into the price of future production. When it is realized that with the improvement in processes with industrial progress, the ratio of capital charges to direct labour costs in the computation of prices is increasing very rapidly (the former being as much as 100 times the latter in some instances), there is little wonder that economic chaos as a result of definite purchasing power is threatening all industrial countries.

The minor defects in regard to bank interest and a portion of the profit element in prices are insignificant compared to this major defect. The chronic and increasing shortage of purchasing power provides a complete explanation of the economic plight of the world frequently described as poverty amidst plenty, the accumulation of huge and mounting debts, schemes of deferred payments for purchases, and all the major features of the present situation.

"But," it will be asked, "if such a glaring defect in the system exists, why did it not break down long ago?"

A DEBT-CREATING SYSTEM

To gain an understanding of why it has been possible for the system to operate so long, it is necessary to consider the growth of industrialization. It is since the expansion of industry and the development of power production that capital costs have become such an important factor in the price system. And with industrial progress this characteristic has become of increasing importance, so that the defect in the system has become more and more pronounced.

Even in the early days of the industrial revolution in Great Britain, the inherent defect in the system was very noticeable. A chronic shortage of purchasing power would be expected to result in goods being unsaleable on the markets. This would create a tendency towards capital production at the expense of ultimate goods production, thereby providing a distribution of purchasing power without this being immediately carried into prices. While this would temporarily relieve the situation it would result in a rapid piling up of debt in connection with production costs which could not be met by the community. These were the factors which became evident even at the beginning of industrialization.

Producers finding it impossible to sell in the home market owing to the inadequacy of purchasing power, concentrated on foreign markets. But it was useless to export goods to obtain goods in return since these would have been equally unsaleable on the home market. Therefore Great Britain resorted to foreign lending. The goods were shipped to other countries and instead of receiving payment for them in goods these countries became indebted to her.

This process was accelerated as other countries became industrialized and were driven for the same reasons to concentrate on foreign markets. This led to keen competition between nations to export their goods and get other countries into debt to them. It was the only way in which they could keep their economic system going.

From time to time the situation became so difficult that a crisis was precipitated. Markets were choked with goods which could not be sold, production slackened, bank loans were curtailed, workers were dismissed, wages and prices fell, accompanied by bankruptcies, suicides and all the familiar features of economic depression until the fall in prices reached a point were exports could again compete with those of other countries. Then production was resumed, wages increased and under the stimulus of buying, prices tended to rise and the situation moved towards a boom, only to be followed later by another depression. Meantime the debt structure continued to increase.

Here then is the complete explanation of so-called cyclical depressions and booms.

The war of 1914-18 greatly accelerated the process—for nations at war were forced to expand their industries by the exigencies of the situation in which they found themselves— and at the end of the war a very much more industralized world immediately settled down to rapid economic expansion under so-called peace conditions, saddled with enormous debts representing costs of production which had been destroyed in fighting each other.

No sooner had the war of destruction ended than the war for foreign markets commenced. Nation began to fight nation for export markets—not that their people at home did not require the production, but simply because the goods were unsaleable there. Owing to the stimulus to industrial development caused by the war, foreign markets were fewer and competitors for them were more. Also, the productivity of all countries having increased, the pressure for exports was greater. The growing struggle for markets abroad led to devices for forcing exports into other countries, such as subsidies, export bonuses and so forth. Similarly the growing stringency of the home market led to all sorts of devices like tariffs and embargoes to be employed to keep out the exports of other nations.

In short, within a few months of the cessation of warfare, the nations of the world were engaged in bitter economic combat—until in 1929-30 there was a spectacular crisis which shook the foundations of the economic structure of most countries and brought foreign trade almost to a standstill.

Meantime the crass stupidity of the state of the world became apparent to increasing numbers. Though the world was equipped to produce abundance, poverty and insecurity were the order of the day. It was widely recognized that the inevitable outcome of economic warfare would be armed conflict. After they had tried every conceivable expedient, disillusioned producers and business executives began to recognize that something was radically wrong with the present financial arrangements of the economic system. Debts continued to mount—bankruptcies and suicides increased—taxation rose steeply—international financial arrangements broken down—revolution and internal disruption rent countries—until the situation has developed towards a world catastrophe which threatens to destroy the very structure of our civilization.

The following quotation from the exhaustive investigation of the subject, *Profits*, by Messrs. Foster and Catchings (Pollak

Foundation for Economic Research) is deserving of close consideration, as it provides independent evidence of the chronic shortage of consumer buying power, and the expedients by which the system is being prevented from total collapse at the present time:

> "This, then, is the conclusion of our argument: Progress towards greater total production is retarded because consumer buying does not keep pace with production. Consumer buying lags behind for two reasons: First, because industry does not disburse to consumers enough money to buy the goods produced; second, because consumers under the necessity of saving, cannot spend even as much money as they receive. There is not an even flow of money from producer to consumer, and from consumer back to producer. The expansion of the volume of money does not fully make up the deficit, for money is expended mainly to facilitate the production of goods, and the goods must be sold to consumers for more money than the expansion has provided. Furthermore, the savings of corporations and individuals are not used to purchase the goods already in the markets, but to bring about the production of more goods. Under the established system, therefore, we make progress only while we are filling the shelves with goods which must either remain on the shelves as stock in trade or be sold at a loss, and while we are building more industrial equipment than we can use. Inadequacy of consumer income is, therefore, the main reason why we do not long continue to produce the wealth which natural resources, capital facilities, improvements in the arts, and the self-interest of employers and employees would otherwise enable us to produce. Chiefly because of shortage of consumer demand, both capital and labour restrict output and nations engage in those struggles for outside markets and spheres of commercial influence which are the chief causes of war.
>
> "HOW WE HAVE FARED AS WELL AS WE HAVE
>
> "To many people our argument may seem to prove too much. How, they may ask, has it been possible to make the great material progress which is evident on every hand? In the United States, during the past century, the output has doubled again and again; railroads have spanned the continent; great cities have grown up on barren plains; electric lights, telephones, automobiles, phonographs, motion pictures, radio sets, and thousands of other achievements of science and industry, which were wholly unknown a generation or two ago, are now in widespread use. If it is true that the flow of money to consumers is insufficient to buy the output of industry, how has this great output been disposed of?
>
> "To a large extent, let us note at once, by methods which are evils in themselves, necessary evils, it seems, on account of deficient consumer income. Some of the stocks which could not be sold have been allowed to spoil or become

obsolete. Others have gone into large, permanent increases in inventories. Still others have been wasted in making additions to industrial equipment far beyond the requirements of the markets. The exact extent of this waste is unknown; but it would certainly be understating the case to say that products to the value of a billion dollars a year are used in creating capital facilities which are never justified by the demand of consumers.

"Larger still are the stocks of commodities which are sold at prices which entail business losses; and such losses, as we have seen are extensive. Indeed, the chief means of getting business under way after a depression is selling stocks at prices which not only wipe out all the gains of tens of thousands of men but also set back industry as a whole. This method not only discourages the competent leaders who survive, and not only eliminates the incompetent ones who ought to be eliminated, but also eliminates many of the competent who, in the interests of society, ought to be retained and encouraged. Thus business losses are borne by the community as well as by individuals.

"Another evil which has offset part of the deficiency of money incomes is a large, permanent increase in consumer debts. Much of the output which otherwise could not be distributed, consumers have bought through the extensive mortgaging of their future incomes; and in recent years business has felt obliged to resort more and more to this method of making sales. Such a device, however, which at best cannot be extended indefinitely, is itself to a considerable extent an evil. What people need is the means of paying for goods, rather than the means of acquiring goods for which they cannot pay."

Again the phenomenal increase in the debt structure, in itself sufficient evidence that the financial system is not self-liquidating and that no tinkering with it will remove the evils which it inflicts upon us, is brought out in the following extract from a speech by C. H. Douglas, delivered in 1935 to the Oslo Merchants' Club before H.M. the King of Norway:

"In the 17th century, the world debt—and we have pretty accurate figures with regard to these matters—increased 47 per cent.

"By the end of the 18th century the world debt had increased by 466 per cent, and by the end of the 19th century the world debt, public and private, had increased by 12,000 per cent, and, according to some very exact calculations which have been carried out by a quite irreproachable professor of industrial engineering of Columbia University, Professor Rautenstrauch, taking the year 1800 as the origin and taking one hundred years as the unit, the world debt is now increasing as the fourth power of time; that is to say, not increasing directly as time goes on, not as the square of time and not as the cube of time, but as the fourth power of time; and that is in spite of the numerous repudiations of debt, the writing down of debts which takes place with every bankruptcy, and other methods used to write off debts and start again.

"That, to my mind, and to anybody who will appreciate what its real meaning is, is an indisputable proof that the present financial price system is not merely self-liquidating, but is decreasingly self-liquidating. We also know that in fact, in those times of boom which are referred to by economists as proving that it is self-liquidating, the rate of increase of debt is greater than in times of depression; so that in real fact, in times of boom even, there is no justification for saying that, at any time of the trade cycle, the price system is self-liquidating."

RULE BY FINANCE

Under the rules of so-called "sound finance", money is issued to the community only in the form of loans from the banking institutions. The community is in debt to these institutions for all the money it possesses. The banks have a prior claim on all money in existence.

Debt is an obligation to pay money, but, as all money in existence is owed to the banks, it is obvious that the fantastic debt structure of the community can only increase. Debts as they fall due for payment must be replaced by new debts, apart from the automatic debt-creating defect of the system.

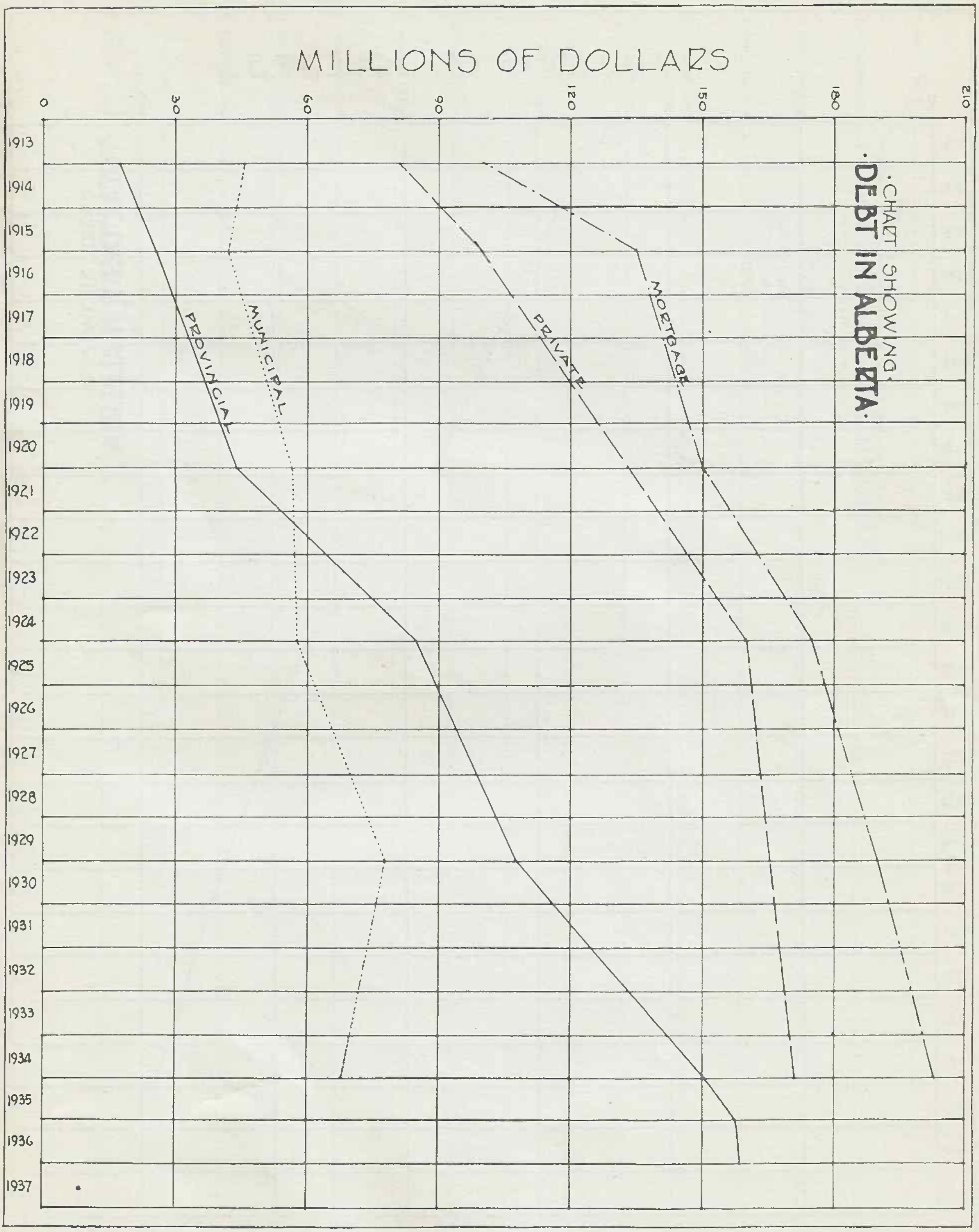
Moreover, because the liquidation of debt can be effected only by money, and because banks have a prior claim to all money in existence, a claim they can exercise at will by calling in loans or selling securities in the open market, it follows that a debt structure which has been created by the operation of the financial system must be centred in and controlled by the banks. The dominating control of all economic activity which this gives the banks can be realized when we consider the relative position of debtors to creditors under the established laws of society.

Now, if money is to perform its function of facilitating the production and distribution of goods and services as, when and where required, it is clear that the financial system of the nation should merely record in figures that which is taking place in the economic sphere. The financial system should be the barometer of economic activity.

In terms of financial credit issue, this means that the quality of money should be determined by the rate at which goods can be produced, and the extent to which the community desires to draw on this capacity.

Yet the operation of the system is far removed from this. The amount of financial credit released to the community as loans by the banks is limited by their holdings of cash. This, in turn,

—Continued on p. 37.



·CHART SHOWING·
·DEBT IN ALBERTA·
MILLIONS OF DOLLARS
0
30
60
90
120
150
180
210
1913
1914
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1916
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1918
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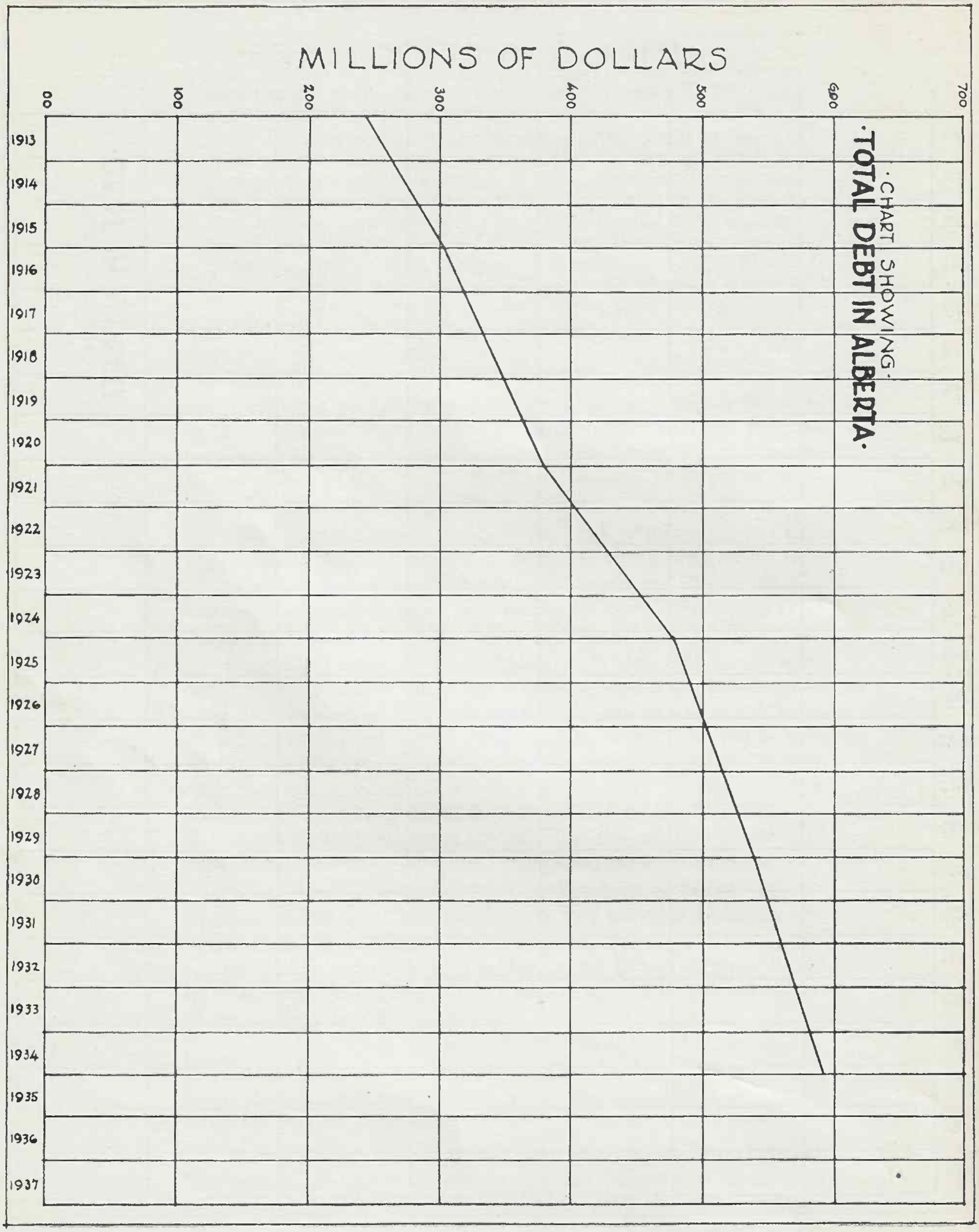
PROVINCIAL
MUNICIPAL
PRIVATE
MORTGAGE



MILLIONS OF DOLLARS
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100
200
300
400
500
600
700
·CHART SHOWING·
·TOTAL DEBT IN ALBERTA·
1913
1914
1915
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1918
1919
1920
1921
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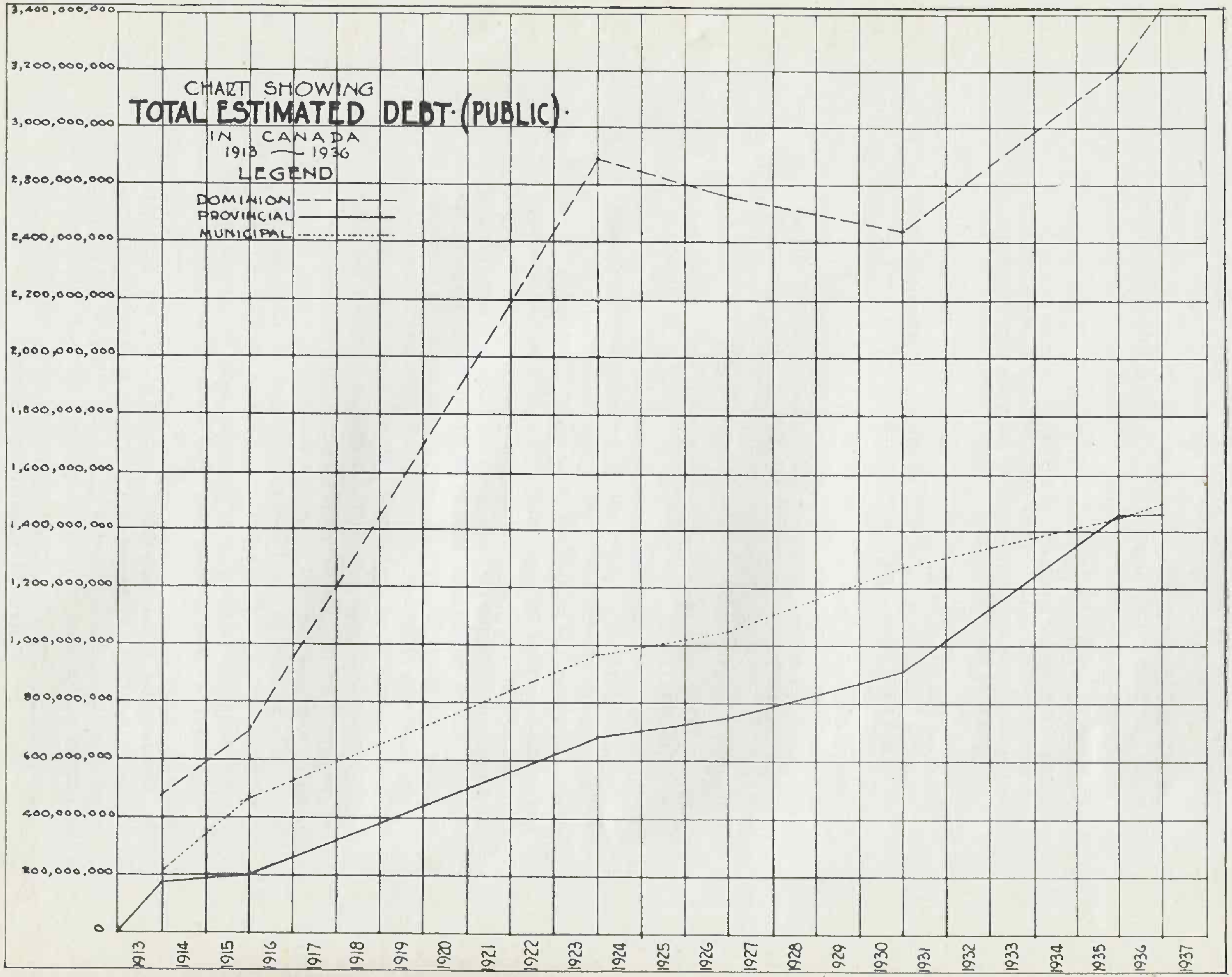
CHART SHOWING
TOTAL ESTIMATED DEBT·(PUBLIC)·
IN CANADA
1913 — 1936
LEGEND
DOMINION
PROVINCIAL
MUNICIPAL
3,400,000,000
3,200,000,000
3,000,000,000
2,800,000,000
2,400,000,000
2,200,000,000
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1,600,000,000
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is limited by the note issue of the Bank of Canada. Therefore, the present arbitrary restriction of the note issue by the Bank of Canada gives that institution complete control over the quantity of money, and therefore, over production and all economic activity.

When it is borne in mind that this over-riding control by the central bank is exercised in conjunction with a debt-creating system which progressively places everything under the control of finance because of its prior debt claims against the community, something of the enormous and extraordinary control of the highly centralized banking system can be appreciated.

This has been very clearly demonstrated to a startled world by recent events in this Province. Even governments are expected to submit to the domination of these financial rulers. And as unsatisfactory as it is that this centralized control of all human activity should be exercised by a group of institutions in the Dominion, the situation becomes fantastic when it is fully realized that the centralization of control is continued through central banks to a coterie of alien financiers exercising supreme domination of the system on an international scale.

Some very definite views have been expressed by men of affairs in regard to this hidden and over-riding tyranny dominating all government and controlling nations,—

> HIS HOLINESS POPE PIUS XI: "Control of financial policy is control of the very life-blood of the entire economic body."
>
> PRESIDENT WOODROW WILSON: "The great monopoly in this country is the monopoly of big credits. A great industrial nation is controlled by its system of credit. The growth of the nation, therefore, and all our activities are in the hands of a few men who chill and check and destroy genuine economic freedom."
>
> * * *
>
> "We have been dreading all along, the time when the combined power of high finance would be greater than the power of the Government."
>
> * * *
>
> "Some of the biggest men in the United States, in the field of commerce and manufacture, are afraid of somebody, are afraid of something. They know there is a power somewhere so organized, so subtle, so watchful, so interlocked, so complete, so pervasive, that they had better not speak above their breath when they speak in condemnation of it."
>
> PRESIDENT ROOSEVELT: "The practice of unscrupulous money changers stands indicted in the court of public opinion and rejected by the hearts and the minds of men.
>
> "Jealously have we guarded the right to coin cash. Carelessly have we delegated the right to create credit. . . .

"He who controls money wields sovereign powers. . . .

"Producing nothing, the Bank of England can control all production, wielding a power not less tremendous because exercised so silently. . . ."

MR. G. K. CHESTERTON: "The main mark of modern government is that we do not know who governs, *de facto* any more than *de jure*. We see the politician and not his backer; still less the backer of the backer; or (what is most important of all) the banker of the backer. . . .

"Throned above us all, in a manner without parallel in all the past, is the veiled prophet of Finance, swaying all men's lives by a sort of magic and delivering oracles in a language not understanded of the people. . . .".

MR. W. E. GLADSTONE (the British statesman): "From the time I took office as Chancellor I began to learn that the State held, in the face of the Bank and City, an essentially false position as to finance. . . ."

"The hinge of the whole situation was this: The Government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned."

—Quoted from *Economic Nationalism,* by Maurice Colbourne.

Is it then any wonder that the obvious destructive characteristics of the present system are not only allowed to persist, but hostile resistance from these financial interests is experienced in any serious attempt which is made to rectify the system? Is it likely that an all-powerful group, dominating all human activity and on the eve of assuming complete control of the world by its manipulation of the financial system, will willingly surrender its power? The system is operating to the sole advantage of these persons, and it is evident that they have no intention of relinquishing their control or power, even though their vicious monetary policy is rapidly bringing chaos to the world, while the cries of a suffering humanity can be heard on every side.

DIVIDENDS FOR ALL

There remains one important consideration before proceeding to summarize the defects in the financial system and indicating the manner in which these can be rectified. This is in regard to the general question of unemployment and the social implications which arise therefrom.

In a previous chapter the anomaly of indigent unemployment was examined. It was shown that the deliberate policy being pursued in industrial development was to replace human energy by solar energy applied to machinery resulting in automatic and semi-automatic processes in production. In other words, the deliberately organized trend of production is towards the elimination of human labour.

All economic progress can be traced to the fundamental policy of human endeavour, that is, the pursuit of security and freedom.

The almost unlimited resources of energy and the knowledge of how this can be harnessed for productive and transport purposes have given mankind mastery in the economic sphere. This is particularly the case in such richly endowed areas as Alberta, and Canada as a whole. Security for all and, with the introduction of improved productive processes, increasing freedom for all in the economic sphere are now possible.

That these improved methods of production, under which human beings are released from toil and by which the productivity of the community is increased, should result in the persons released being rendered destitute through loss of wages is but another fantastic feature of the system. Instead of leisure and the well-being of the entire community being increased by an obvious economic advance, the community is rendered poorer to the extent of the purchasing power withdrawn, and the release from toil rendered possible by the improvement in processes is entirely negatived by the plight of those whose services have been replaced by mechanization and the economic consequences of further restricted markets caused thereby.

The next question which arises is one of equity. Why should a person be rendered destitute because economic progress has been made and the productive capacity of industry has been increased without his services being required? To whom does the increased production belong?

Again the amount of production per man under modern conditions, whether in the sphere of agriculture or industry, is some thousands of times greater than that which was possible to primitive man. To whom does credit for this rightfully belong?

It is evident that modern productive processes have been rendered possible by the application of a store of knowledge which has been passed down from generation to generation—something in the nature of a cultural heritage to which a community as a whole are the heirs. Modern productive methods are rendered possible only by the exploitation of this inheritance and to the extent that such exploitation contributes to the achievement of the social objectives of security and freedom, all the community should benefit.

Take an exaggerated example. If the trend of modern productive methods resulted in the complete mechanization of all production, so that the services of, say, only two per cent of the population were required, under the present system the 98 per cent would be rendered destitute, without any right to the abundant production. The principle is equally applicable whether the percentage is ninety-eight or eight.

If the improvement in processes renders increasingly possible the social objective of security and freedom for all, this should be reflected in the economic arrangements of the community. As production becomes increasingly less dependent upon human labour, individuals in the community should be rendered increasingly less dependent upon payment for their service in the economic sphere to obtain a share in production. In short, a dividend paid on the cultural heritage should progressively replace wages and salaries as improvements in production processes increase.

PRINCIPLES OF FINANCIAL REFORM

The defects in the financial system which have been revealed by our examination can be summarized as follows:

(1) Because of its supreme authority over the monetary system, a group of alien financiers is able to control, through the central bank and the chain of commercial banks, the entire economic life of the nation, thereby exercising sovereign direction of all its institutions, including the institutions of government.

(2) Because of the methods adopted in financing production—in particular capital production—in any given period the community is obliged to surrender purchasing power issued to it in respect of its entire production for that period. As, however, the costs of both capital production and production of ultimate goods have to be met by consumers in the prices of the latter, the unconsumed production costs carried forward for liquidation in the future, cannot be met. This results in a chronic and increasing shortage of purchasing power, with disastrous results to the entire economic structure. Moreover, the effect of this defect is aggravated by the limitation of money supply imposed through the arbitrary restriction of the central bank's note issue.

(3) Two minor defects exist in respect of the demand of the banking system: (*a*) that the community should return more money in the form of interest charges than has been distributed to it; (b) prices are loaded with an element of profit in respect of which no purchasing power is ever distributed.

(4) The objective of social endeavour in the economic sphere being to confer the greatest freedom and the maximum of security on the individual, the decreasing dependence

of production on human labour justifies, in equity, that the wage and salary system should be supplemented by a system of social dividends distributed as an unalienable right. With technological progress, monetary claims on production should be increasingly distributed in the form of dividends and become less and less dependent upon the wage system.

(5) Present taxation methods are unnecessary and should be modified.

It is submitted that if these defects are remedied, the change which would result would be fundamental and that a smooth transition from the present social order, dominated by a group of financiers, to economic democracy would be accomplished without any violent shock to the social life of the nation.

In contrast to this, it should be evident that the blind perpetuation of a defective and collapsing monetary system as the foundation of the nation's economic life, will inevitably end in social chaos.

It is not intended to do more than indicate the basic principles of financial reform necessary to rectify the defects summarized above. Once these principles are recognized and accepted as the basis for reform, no difficulty will arise in regard to their application in a specific manner,—

(1) It is fundamental to a democratic social order that the people shall determine the results which they desire from their social organizations.

In order to ensure that financial policy shall conform to the will of the people, and that proper supervision of the system shall be established, a credit authority under the effective control of the government should be established for the purpose.

The administration of the financial system could be left to the banks, providing this was subject to policy control by the people, through the government and the credit authority.

(2) The major defect in the financial system arises mainly from the manner in which capital goods production is financed, causing a chronic and increasing shortage of purchasing power. Reference back to the examination of this feature will show that the community is obliged to surrender the purchasing power distributed to it in respect of its total production in any period. Being in effect charged for its total production for the period, it is unable to meet the accumulating costs carried forward from the past into current prices of ultimate goods coming on the market.

To rectify this error it will be necessary for the deficient purchasing power to be made good. Instead of being called upon to surrender purchasing power in respect of its total production for any period, the community should have to meet the costs only of its consumption of goods in the period.

However, if the difference between the price values of its total production and the price values of its total consumption for the period was made good to the community, there may be an excess of purchasing power, as the unconsumed production for the period is, in the main, in the form of capital goods.

To achieve a balance between purchasing power and prices of ultimate goods on the market, additional purchasing power should be made available to the community at the rate at which the costs carried forward from past production appear in the prices of ultimate goods in the market.

If, therefore, prices to consumers were adjusted so that selling price bore to the retail price as now computed the same ratio as total consumption bore to total production, retailers being reimbursed for the difference by means of financial credits created for the purpose, the deficient purchasing power would be issued to the public at the rate which was required to ensure a perfect balance between available purchasing power and total prices of goods on the market.

Moreover, the additional purchasing power would be injected into the system by means of compensated prices in a manner which would preclude any inflationary results. There would actually be a fall in the price level of consumers goods corresponding to the increase in monetary supply.

The specific method of application of this general proposition would be dependent upon the requirements of the situation. It is sufficient for present purposes to indicate how the fundamental major defect in the system can be rectified. Moreover, minor defects mentioned in regard to bank interest and the element of profit in respect of which purchasing power is not distributed, would automatically be adjusted in the application of the compensated price formula.

(3) The monetary stringency imposed by an arbitrary restriction of the note issue is a denial of the purpose for which the monetary system exists—namely, to facilitate the operation of the economic system to provide goods and services as, when and where they are required. The monetary system should, therefore, merely reflect what is happening in the economic sphere. It should not control economic activity, but rather be controlled by it.

(4) Provision for social dividends can be made from the fund of financial credits necessary to make good the general deficiency of purchasing power. Dividends expended in the purchase of ultimate commodities will automatically increase consumption. The price ratio for calculating the compensated price being:

$$\frac{\text{total price values of consumption}}{\text{total price values of production}},$$

an increase in consumption due to the issue of dividends will automatically result in a smaller discount, thus maintaining accuracy in the general adjustment.

(5) Similarly, instead of reducing the purchasing power of individuals by taxation and proceeding to increase purchasing power by the above methods—drastic tax reductions can be granted at the expense of smaller dividends and a smaller price discount. With this is bound up the question of debt adjustment in a general scheme to deal with the accumulated results of the defective financial system.

In this chapter it has not been possible to do more than subject the financial system to a general examination and indicate the broad lines along which the defects which exist can be rectified. However, it is submitted that the essential facts have been dealt with, and in the chapter which follows some of the basic principle of social organization in relation to the constitutional problems of Canada as a federal union of democracies are subjected to a like examination.

In the final chapter specific recommendations are made.

CHAPTER V.

Democracy and Confederation

Any approach to the social and constitutional problems which confront Canada must be dispassionate and directed towards ascertaining the root causes of our troubles if it is to yield a lasting settlement of present difficulties. Too often in the past have efforts to deal with similar problems been rendered abortive by petty political motives and the blind obstinacy of tradition. The issues which face the nation are too important, the responsibilities for the future of the Dominion are too great to permit of any sectional interest in Canada imperilling the heritage of its people.

To-day there is a wide and growing recognition that the troubles which beset us arise from fundamental causes, and that there must be a change. The preceding chapters provide evidence of the urgency of this change.

A scientific approach to our social problems must, in the first instance, establish beyond any reasonable doubt the basic causes of our troubles, for unless these are removed the troubles will persist. Any mere superficial readjustments to deal with the symptoms of our ills, without removing the causes, can achieve nothing but persistence of these troubles. The causes will remain and continue to undermine our social structure.

The problems of Alberta, of every other province, and of the Dominion as a whole, are essentially concerned with our social organization. They have to do with the relationships between individuals living in association within organized society. All organization is a science and social organization is no exception. A scientific investigation of the causes which operate in the acute social problems that assail our nation, should, therefore, proceed from an examination of the basic principles of social organization and their application to modern conditions in Canada.

Basis of Society

The primary consideration in regard to any organization should be its objective—the purpose for which it exists. Individuals enter and remain in association as an organized group, be it as a nation, or merely as an organization for gaining certain knowledge, because they believe that they can achieve that which they want more effectively in association than in isolation. This belief that in association individuals can get what they want, which would otherwise be impossible or more difficult for them to achieve, is inherent in the individuals who make up society, otherwise there would not be any society. It is a basic influence which has developed civilization.

A "natural" social order is one which is organized to achieve the purpose of society—namely, to enable the individuals in association to get what they want in the most efficient manner possible. All history goes to show that to the extent individual members of any social group gain satisfaction in what they desire from their association with others, peaceful progress and harmony result; and, conversely, to the extent they are thwarted from gaining what they want from society, social unrest and turmoil threaten disintegration. Where no benefit accrues, or its extent vitally disappoints, individuals seek new associations.

The belief inherent in society that its individual members in association can get what they want is the basis of the "credit" of the social group. This belief is the power which motivates every social activity. To the extent individuals realize this belief, the social organization is strengthened, and more efficient organization directed towards further satisfying individual wants is stimulated. On the other hand, any weakening of this belief because individual members of society are not getting what they want from their association with others, tends to destroy the efficiency of the organization and efforts directed towards the realization of individual desires are discouraged, and in the growing dissatisfaction, disintegration of society begins to occur.

THE NATURE OF DEMOCRACY

Social organization should exist to achieve the purpose of society—namely, to provide arrangements whereby individuals in association may get what they want in the most efficient manner for all. Organization to this end must be governed by the two determining factors of all organizations—namely (1) policy or the specification of results, and (2) administration or *how* these shall be achieved. Bound up with these considerations are three main questions: (*a*) *who* shall decide policy?, (*b*) *who* shall decide questions of administration?, and (*c*) *who* shall choose the administrators?

Broadly speaking, there are two forms of organization, democratic and centralized. The form of organization adopted determines the point from which control shall operate. Under democratic organization control is exercised by the individuals collectively comprising the group and they assert their collective will on the administration. Under centralized organization the individuals comprising the group submit to control by the adminstrators whose will dominates them.

Clearly the democratic form of organization must be employed if society is to fulfil its purpose. It is the only basis of organization which can provide the arrangements whereby individuals in association may get what they want from their social environment. However, this does not mean that there is no place for centralized organization; for democratic organization, while it must provide the basis for a natural order of society, has its limitations.

To take a concrete example, a number of individuals may desire a bridge to enable them to freely cross a river and, therefore, they enter into association for the purpose of providing themselves with this facility. Now there can be do doubt as to the ability of every one of them to decide whether or not the bridge shall be built. They are the greatest living authorities on the subject of *what results* they want. They also take the decision to co-operate in the undertaking; in other words, they freely enter into association with the others to get what they want. However, if each of them had to decide also on *how* the bridge should be built, the unity of purpose would soon be shattered by arguments on the methods to be employed. Every one would have different ideas and possibly the one person who had a real knowledge of bridge building would have this view subjected to criticism and amendment by those who knew nothing about the technique, and the results would be disastrous to all. The obvious procedure to adopt in order to attain their objective would be for democracy to provide inducements by which the person who has the necessary knowledge of bridge building would undertake the task, the group holding him personally responsible for the results. Thereafter they would adopt the centralized form of organization, placing themselves under the administrator and taking instructions from him. Should he fail to produce the desired result, however, or should he bungle the work in the process, they should be able to remove him.

The foregoing example illustrates the strength and limitations of democratic organization, and the place which the alternative form of centralized organization should occupy in a natural social order—the social order which we know as democracy.

The matter can be summarized thus:

(1) All questions of policy—that is what *results* are required—should be decided democratically. (2) All ques-

tions of adminsitration—that is *how* it shall be done or what *methods* shall be employed to gain the democratically decided *results*—should be determined under centralized organization by administrators who are equipped with the knowledge and who will be held responsible for results.

(3) Control over administrators should be exercised democratically to the extent that if they do not produce the results desired they can be removed in favour of those who will.

In a democracy every aspect of the social organization employed, and every insitution and other mechanism devised to enable society to fulfil its purpose should conform to these basic principles.

CANADA AND DEMOCRACY

In applying the foregoing examination of the principles which should govern democratically organized society to the social organization of Canada, we have to bear in mind that basically, Canada is a union of nine separate social groupings, each organized within clearly defined borders which separate each province. Just as the important unit of any social grouping is each individual, so the important unit in our federal union is each province. Just as it is impossible to have a healthy, satisfied and prosperous province unless the individuals which comprise its people are healthy, satisfied and prosperous, so it is impossible to build a progressive and prosperous Canada unless that is the condition of its component parts, the provinces. An examination of Canada's social organizations should, therefore, start with the individual in relation to the social grouping within the province, and proceed to the relationship of these provincial groups to each other in a federal union.

The basis of social organization in each province is the inherent belief, that its individual citizens in association can get what they want—a result which would be impossible to them living in isolation. To the extent this belief is realized, the credit of the province is strengthened and its social organization functions vigorously to fulfil its purpose. To the extent the people are thwarted in realizing their wants, this belief is weakened—that is to say the credit of the province is weakened—and the social organization is jeopardized by disintegration.

Similarly, the only basis on which a federal union of nine provinces can flourish is an inherent belief that in association with other provinces the individual citizens of each province can get what they want more effectively than if provinces operated in isolation. To the extent that this is realized, the credit of every province will be enhanced, and vigorous and harmonious co-operation ensured. Conversely, to the extent that this belief is weakened as a result of confederation, to that same extent will the credit of every province be impoverished and disintegration threaten the union. Thus it will be observed that the basis of the credit of the Dominion is the credit of each province.

DOMINION-PROVINCIAL RELATIONS

To ensure that the credit of each province and of the Dominion as a whole is enriched, and the resulting social power is applied to enable the various organizations which exist to fulfil the purpose of all social organization, the basic principles of democratic society must be observed.

All policy—that is the *results* desired—must be decided democratically. Administration of this policy must be centrally controlled.

In applying this to Dominion-Provincial relations in our federal union from the scientific aspect of "that is right which works best" we must first consider the matter as it affects each social grouping or province. Clearly, the people of each province must be sovereign in regard to policy as it affects them individually and collectively within their provincial borders. If this is not conceded then the basis of confederation is destroyed.

However, when it comes to the question of administration of this democratically decided policy within each province, other considerations arise. The primary objective of confederation is that by close co-operation with other provinces, each province will gain what its people desire more efficiently than could be achieved otherwise. For example, in railway transport a more efficient service can be gained by every province through centralized Dominion administration of railways *(provided it gives the people of each province the service they want)*, than nine separate provincial administrations could hope to achieve.

Therefore, while it is clearly essential to a democratic Canada, that all questions of policy, i.e., the *results* desired should be democratically decided by the people of each province, so far as it concerns them individually and collectively, questions of administration or *methods* will fall under the jurisdiction of either the provincial authority or the Dominion authority established to implement democratic policies.

In matters which are entirely provincial and which do not affect any other province, adminstration will be provincially controlled. However, in matters which are common to all provinces and in the administration of which Dominion-wide organization will yield greater efficiency, centralized Dominion administration should be employed to implement the policy—that is, to provide the result which has been decided by the people of each province.

In the natural social order which we term democracy every organization, every institution and every social mechanism should exist to serve the individual. The sole purpose of government should be to implement the collective will of democracy in regard to the results it wants and to see that it is provided with mechanisms and organizations which will enable individuals to get what they want with the greatest degree of efficiency from their social environment. Thus, while it is a truism that the function of governments is to govern, that government is best which needs to govern least, for the more efficient the social organizations at the disposal of democracy the easier and more automatic will it be for individuals to get what they want in their association within society, without the intervention of governmental authority.

The principles which should determine Provincial-Dominion relations can, therefore, be summarized thus:

(*a*) *All* policy (i.e., results desired) should be decided democratically by the people of each province so far as it affects their lives within the province.

(*b*) Policy should be decided democratically by the people of the entire Dominion when it concerns matters affecting the relationships of the Dominion with other parts of the world.

(*c*) Jurisdiction over the administration of democratically decided policy should be distributed as between provincial governments and Dominon governments as follows:

(1) Provincial jurisdiction over administration of policy in all matters which are purely provincial in their scope.

(2) Dominion jurisdiction over administration of provincially and democratically decided policy in all matters which affect each province and in respect of which it has been agreed by each province that Dominion administration is desirable.

(*d*) Dominion jurisdiction over administration of matters affecting the relations of the union of the provinces as a whole with other parts of the world.

BRITISH NORTH AMERICA ACT

While the subject of social organization was not so thoroughly understood sixty years ago as it is to-day, the Fathers of Confederation in providing the basis for the association of provinces in the union which is Canada, showed great wisdom in the division of powers as between provincial and Dominion governments which were subsequently embodied in the B.N.A. Act. Broadly, and apart from the mistakes which have become apparent, Sections 91 and 92 of the B.N.A. Act conform to the principles which should govern Provincial-Dominion relations in a democratic Canada. Many of the difficulties which have arisen in this connection are due, very largely, to the interpretation which has been given to these sections of the Act, without due consideration to the fundamental rules which should have been observed in interpreting them.

For example, provincial jurisdiction over civil and property rights under Section 91 recognizes the basic principle of democratic social organization that sovereign control of policy must belong to THE PEOPLE. The primary civil right of a democracy is its right to decide policy—that is to decide what results shall be provided by the social organizations which exist to serve its individual members.

Similarly, if the principles of democratic social organization which emerge from the foregoing examination of the subject are borne in mind, no serious conflict need arise in the interpretation and application of the B.N.A. Act in its broad provisions as a basis of confederation. To the extent it contravenes the principles of democracy, no serious difficulty would arise in gaining general agreement as between all provinces for its amendment.

Steps towards an early settlement of these difficulties would be rendered easier by a conference of all provinces without delay in order to clear up the constitutional muddle which exisits in the Dominion.

CHAPTER VI.

Recommendations for Social and Economic Reconstruction

General:

The primary and urgent need in Canada is the establishment of democracy—that is, democracy in the correct sense of that term.

This requires that policy (in particular policy in the economic sphere), shall be decided by the people of the provinces concerned, except in regard to matters affecting the relations of the Dominion with other countries, in which case it should be decided by the people of all provinces collectively.

At the present time the policy, i.e., the results required by the people of Alberta and of every other province, could be stated in general terms as a maximum of personal security and personal freedom. The policy being *imposed* on the people everywhere is the opposite to that which they desire and could be stated in general terms as insecurity and progressive loss of freedom through unnecessary poverty, debt and taxation. Control is centred in the banking system, by the operation of which a small group of alien financiers are able to impose their domination over the entire nation.

In August, 1937, the Government of Alberta in obedience to the demand of the people of the Province, passed legislation designed to provide for effective control of policy in accordance with the declared will of the electorate, without interfering with the administrative function of the banks or the jurisdiction of the Dominion Government in regard to administrative matters coming under Section 91 of The B.N.A. Act, and without interfering with the primary civil right of policy control in any other province.

This enactment was assented to August 6, 1937, in the name of His Majesty the King.

To the amazement of the people of Alberta, and, no doubt, to the equal amazement of people all over the Dominion, the Dominion Cabinet, without consulting the people of Alberta or the people of Canada as a whole, and without consulting even the representatives of the people of Canada, simply disallowed the legislation.

This was the first concrete evidence which the Government of Alberta had that democracy in Canada was being denied.

The subsequent treatment which the Province received confirmed this view and has convinced the Government that only vigorous and early action by the people of all provinces working together will safeguard their rights from the attack which is being made on them.

The fundamental issue is the establishment of democracy in our Dominion and of the sovereignty of the people of every province in our Confederation.

To this end the Government of Alberta submits to the sovereign people of Canada and their Governments specific recommendations for their serious consideration in this grave crisis which our country, in common with the other nations of the world, is facing at the present time. It is further submitted that Canada will render the greatest service possible to humanity if, as the Government of Alberta contends, it will lead a poverty-stricken, debt-burdened, war-sickened world out of the toils of the financial tyranny which is threatening civilization.

* * * * *

(1) *Policy Control:*

It is submitted that provincial Governments should take early action to establish the sovereignty of their people within the boundaries of their own province to control policy—i.e., to obtain the results they desire—in respect of all economic and political arrangements within their provinces, provided that the same right of the people of any other province is not thereby subjected to interference.

Until democracy is established within each province it will be impossible to build a democratic Canada.

(2) Having established the statutory and constitutional right of the people to control policy, the electorate in each province should be given an opportunity, by practical means, to express in their order of preference the definite results they want from the administration of the affairs of their province, and the various institutions should be instructed to implement this policy without delay.

It is almost certain that the declared policy of electors in all provinces will be an expression in one form or another of the measure of economic security and freedom which they desire. In this respect the clear and specific demand of the people of Alberta for $25 a month dividend and a lower cost of living might form the basis of securing uniformity in regard to policy. It is at least proven that this is easily within the realms of practicability so far as Alberta is concerned, and should be equally practicable for the Dominion as a whole.

(3) *Financial Adjustments:*

In order to implement the policy of electors, the following specific proposals should be adopted to rectify the faults in the financial system which have been examined in previous chapters:

(*a*) A provincial credit authority under Government control to be established in each province to supervise the administration of policy as decided by the people.

(*b*) The distribution of a social dividend supplementary to any earnings and sufficient in amount at the outset to ensure the security of every person. This to be brought into line, as rapidly as possible, with the declared policy of the electorate.

(*c*) The adjustment of retail prices, so that the compensated selling price of goods shall bear to the price as computed at present the same ratio as total provincial consumption bears to total provincial production for any accountancy period.

(*d*) The note issue to be regulated by the volume of financial credit released, instead of the present procedure of an arbitrarily limited note issue unnecessarily restricting the issue of financial credit by the banks.

(*e*) Banks to continue the administration of the financial system under the jurisdiction of the Dominion Government and subject to the control of policy by the people of each province through a provincial credit authority,

(*f*) Banks to discontinue the practice of charging arbitrary interest rates and to be compensated adequately for their services to the community on an equitable basis.

(*g*) The careful preparation of an interim scheme to be undertaken so that the application of the general proposals outlined above can be introduced smoothly and without dislocation to the social life of the province.

(4) *Taxation:*

Instead of existing methods of taxation, Government revenue to be obtained to an increasing extent—and finally all revenue—from the monetized provincial credit fund created for the purpose of providing consumer credits through dividends and price discounts to compensate the shortage of purchasing power.

In this connection it would be possible in Alberta, within a reasonable time, to distribute a monthly dividend of $25 to every adult citizen; to considerably reduce retail prices from the present level, and also to drastically reduce taxation.

(5) *Debts:*

It will be necessary to secure a revision of the entire debt structure on a basis which will be equitable and which will not involve unwarranted loss to individuals. Details of such a scheme will be dependent upon all the circumstances involved, but the general proposition should present no insuperable difficulty once the principle has been agreed.

(6) *Confederation:*

The constitutional confusion which exists, makes it a matter of utmost urgency for an inter-provincial conference to be held at an early date as a preliminary to placing Confederation on a proper basis.

* * * * *

It is the considered view of the Government of Alberta that unless concerted action by all provinces is taken substantially along the lines indicated above, the economic structure of the Dominion and the fabric of Confederation will be imperilled.

It is the earnest desire of the Government and the people of this Province to do everything within their power to help in solving the grave economic problems which confront the entire nation and in forging the bonds of a Confederation of sovereign provinces which will make Canada the great nation we all desire so earnestly.

History shows that it is a human characteristic to resist change—even to the extent of adhering to the folly of a disastrous course of action. The universal preparation for a war which might plunge the world into a Dark Age from which it will emerge with difficulty, is evidence of this characteristic. From the world situation and the glaring anomalies in our economic system, it must be obvious to every thinking person that the present economic system has broken down. There is unquestionably a wide recognition that there must be a change—and a fundamental change. But a change to what? So-called communism, socialism, liberalism, conservatism, new deals, inflation, deflation, reflation, nazi-ism, fascism, dictatorship—all these have been tried, but the plight of the world continues to get worse as each day carries humanity towards the overwhelming disaster that must inevitably overtake a civilization based on a fundamentally unsound economic system. Democracy—the term by which we know the natural social order, in which the will of the people is supreme in all matters of policy—Democracy which means government in accordance with the results which the people want—Democracy in its true sense alone has not been tried.

Fear of the unknown is still a deeply rooted human characteristic and it may cause hesitancy on the part of provinces to take the firm action which the gravity of the situation demands.

The Government of Alberta, on behalf of the Province, therefore unreservedly offers to test the soundness of the economic proposals submitted in this chapter. Alberta will undertake to put them into effect in the Province without interfering with any other province in the Dominion. With the co-operation of all provinces—to ensure non-interference with Alberta—to demonstrate whether basically the proposals advocated are sound and all which they are claimed to be.

Is it too much to ask that our Province be afforded the privilege of leading the way out of the present choas of poverty, debt and crushing taxation in a land of abundance and promise?

That is a question which can be answered only by the SOVEREIGN PEOPLE of Canada through their accredited Governments.

APPENDIX I.

Various Statistical Tables

TABLE I.

CAPITAL ASSETS ACCOUNT—PROVINCE OF ALBERTA

Accounting Period 1936-1937

DEVELOPED LANDS—	Acres		Valuation
(A) Acres, Agricultural Land Occupied	39,000,000		$390,000,000
(B) Forest Sold (or under Lease)	391,917		79,975,000
(C) Minerals (under Lease):			
1. Petroleum and Natural Gas	2,701,398		
2. Coal	246,554		
3. Quartz	1,675		
4. Quartz Mining	182		
5. Salt and Gypsum	200		
6. Tar Sands	3,737		
7. Miscellaneous	3,560	Value of Products	112,667,000
Total Number of Acres	42,349,223	Total Value	D* $582,642,000

PUBLIC WORKS—	Est. Cost	Est. Present Value
1. Harbours	$ 557,000	$ 334,200
2. Irrigation	32,000,000	18,000,000
3. Water Work Systems	16,938,400	8,938,400
4. Sewer and Sewer Disposal	16,869,700	14,869,700
5. Water Power Developed	17,974,729	7,189,909
6. Drainage Reclamation of Lands	629,000	440,300
7. Telephones	29,000,000	22,354,954
8. Roads, Bridges, Ferries (Whole Province)	30,000,000	11,297,297
9. Buildings and Institutes (Provincial Government)	8,975,589	Net Loss
10. Private Buildings (other than Government Buildings)	113,755,136	79,129,596
11. Railways, C.P.R., C.N.R., Ed. & B.C. (includes Repair Engines)	215,045,000	129,027,000
12. Telegraphs, Railways	17,355,000	6,942,000
13. Schools (Urban)	13,382,300	10,867,030
14. Schools (Rural)	9,551,000	7,951,000
15. Municipal Assessment Land	439,007,148	439,007,148
16. Tramways: Calgary and Edmonton	6,058,527	Net Loss
Total	$967,098,529	E* $756,348,534

D* Estimated Present Valuation—Developed Lands	$ 582,642,000
E* Estimated Present Valuation—Public Works	756,348,534
	$1,338,990,534

TABLE I. *(Continued)*

	Acres	Value	
Carried Forward			$ 1,338,990,534
UNDEVELOPED LANDS AND RESOURCES—			
(A) Acres Agricultural Land Not Occupied	58,000,000	$ 58,000,000	
(B) Acres Forest Land (Undeveloped)	83,214,483	2,784,525,000	
(C) Acres Mineral Land (Undeveloped):			
1. Petroleum and Natural Gas		231,048,000	
2. Coal (Tons)	61,000,000,000	122,000,000,000	
3. Tar Sands (10,000 Sq. Miles) (100,000 barrels to acre) Shown on Report at		100,000,000,000	
Capitalized Value of the Population of the Province of Alberta		4,464,046,125	
Net Credit Balance between Province and (Elsewhere)		45,000,000	Estimated
		$230,921,609,659	
Valuation of the Capital Assets of the Province of Alberta			$230,921,609,659

TABLE II.

PRICE VALUE OF PRODUCTION (ALBERTA)—GROSS			PRICE VALUE OF PRODUCTION (CANADA)—GROSS		
1933	1934	1935	1933	1934	1935
$ 206,997,231.00	$ 255,549,707.00	$ 250,995,852.00	$3,331,663,152.00	$4,042,933,196.00	$4,398,333,710.00

Reference—Dominion Survey of Production, 1934 and 1935.

TABLE III.

TOTAL PUBLIC AND PRIVATE DEBT—AS AT DECEMBER 31st, 1937

ESTIMATED INDEBTEDNESS TO ORGANIZED LENDERS

1. Members of the Mortgage Loan Association	$ 45,000,000.00
2. Canadian Farm Loan Board	6,500,000.00
3. Soldier Settlement Board	8,000,000.00
4. School Lands Contracts	4,500,000.00
5. Organized Vendors of Land	21,000,000.00
6. Private Parties, Mortgages and Vendors of Land	65,000,000.00
7. Banks	35,000,000.00
8. Implement Dealers (Members of the Implement Dealers' Association)	50,000,000.00
9. Retail Merchants	40,000,000.00
10. Oil Companies	15,000,000.00
11. Finance Corporations	15,000,000.00
12. Dominion and Provincial Governments and M.D. Seed and Fodder, Gasoline A/C	15,000,000.00
13. Taxing Authorities in Respect of Tax Arrears	28,000,000.00
14. Rural Credit Societies and Co-operative Marketing Association, as at October 31, 1937	4,954,884.00
15. Sundry Creditors (Embracing Professional)	50,000,000.00
16. Urban Mortgage Debt	41,000,000.00
17. Net Funded and Unfunded Debt (Provincial) (Alberta)	158,151,000.00
	$602,105,884.00

TABLE IV.

NET FUNDED AND UNFUNDED DEBT (ALBERTA)

1929-1930	1930-1931	1931-1932	1932-1933	1933-1934	1934-1935	1935-1936	1936-1937
$106,996,000.00	$117,070,000.00	$135,047,000.00	$143,727,000.00	$144,548,000.00	$150,609,000.00	$158,081,000.00	$158,731,000.00

Reference—Provincial Treasury Department.

MUNICIPAL GROSS DEBENTURE DEBT (ALBERTA)

1930	1931	1932	1933	1934
$78,645,803.00	$78,679,571.00	$72,892,413.00	$69,455,181.00	$67,886,011.00

References—Page 858, C.Y.B., 1937.

TABLE V.

GROSS PUBLIC DEBT OF CANADA

1930	1931	1932	1933	1934	1935	1936	1937
$2,544,586,411.00	$2,610,265,698.00	$2,831,743,563.00	$2,996,366,665.00	$3,141,042,097.00	$3,205,956,369.00	$3,431,944,027.00	$3,542,521,138.00

References—Page 839, C.Y.B., 1937. Public Accounts, 1936, Canada, page 54.

TABLE VI.

DEBT OF THE DOMINION GOVERNMENT, PROVINCIAL GOVERNMENTS, AND MUNICIPALITIES BY SELECTED YEARS*

	1914	1919	1929	Jan. 1, 1937	Jan. 1, 1938
Dominion of Canada:					
Direct	$ 335,996,000.00	$1,574,531,000.00	$2,225,505,000.00	$3,158,461,000.00	$3,130,875,000.00
Guaranteed	110,000,000.00	110,000,000.00	714,208,000.00	968,373,000.00	1,002,373,000.00
Provinces of Canada:					
Direct	200,000,000.00	334,472,000.00	1,031,719,000.00	1,447,305,000.00	1,437,121,000.00
Guaranteed	100,000,000.00	118,768,000.00	224,470,000.00	241,029,000.00	260,259,000.00
Municipalities	376,859,000.00	493,275,000.00	1,332,510,000.00	1,427,938,000.00	1,428,195,000.00
	$1,122,855,000.00	$2,631,046,000.00	$5,528,412,000.00	$7,243,107,000.00	$7,258,823,000.00

NOTE: Compiled by Dominion Bureau of Statistics for years 1914-1929, and estimated by A. E. Ames & Co. for 1937 and 1938. Figures refer to outstanding obligations at the end of the respective fiscal years. When obligations are guaranteed by both the Provinces and the Dominion, the amount is included in the guaranteed obligations of the Dominion.

*Excluding Treasury Bills.

References—Business Year Book, 1938, page 159.

APPENDIX II.

The Credit of Alberta Regulation Act

1937

(SECOND SESSION)

CHAPTER 1.

An Act to provide for the Regulation of the Credit of the Province of Alberta.

(Assented to August 6, 1937.)
(Disallowed August 17, 1937.)

Repealed. [1937 (Third Session), Bill No. 8., Sec. 9.]

Preamble

WHEREAS Bank Deposits and Bank Loans in Alberta are made possible mainly or wholly as a result of the monetization of the credit of the People of Alberta, which credit is the basis of the credit of the Province of Alberta; and

Whereas the extent to which property and civil rights in the Province may be enjoyed depends upon the principles governing the monetization of credit and the means whereby such credit is made available to the Province and to the People collectively and individually of the Province; and

Whereas it is expedient that the business of banking in Alberta shall be controlled with the object of attaining for the People of Alberta the full enjoyment of property and civil rights in the Province.

Now, therefore, His Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Alberta, enacts as follows:

Short title

1. This Act may be cited as "*The Credit of Alberta Regulation Act.*"

DEFINITIONS

Definitions

2. Under this Act unless the context otherwise requires:—

"Banker"

(*a*) "Banker" means a person or corporation whose business or any part of whose business is the business of banking;

"Business of Banking"

(*b*) "Business of Banking" means the receipt of money on current or deposit or savings account, the payment and collection of cheques drawn by, or paid in by, customers, the making of advances or the granting of overdrafts to customers;

"Local Directorate" "Provincial Credit Commission"

(*c*) "Local Directorate" means a Local Directorate constituted pursuant to section 4 of this Act;

(*d*) "Provincial Credit Commission" means the Commission constituted pursuant to section 4 of *The Alberta Social Credit Act*;

(*e*) "Social Credit Board" means the Board constituted pursuant to section 3 of *The Alberta Social Credit Act*. "Social Credit Board"

3.—(1) Every Banker who at the time of the coming into force of this Act is carrying on the business of banking within the Province shall, within twenty-one days thereafter, apply for and obtain a license from the Provincial Credit Commission in respect of such business, and every such application shall be accompanied with the fee provided for the license so applied for. Licensing of Bankers

(2) Every person employed by a Banker carrying on the business of banking within the Province, shall within twenty-one days of the coming into force of this Act, apply individually for and obtain from the Provincial Credit Commission a license to carry on the business of Banking, or any function or functions thereof, and any such application shall be supported by a recommendation of the Local Directorate or the person in charge of the business where the applicant is employed and in the locality where the applicant is employed; and every such application shall be accompanied with the fee prescribed for the license applied for. Licensing of Bankers' employees

(3) Every license issued under this Act shall expire at midnight on the thirty-first day of March of the calendar year following the year in which it is issued or at such other time as the Provincial Credit Commission may by regulation determine. Expiration of licenses

(4) Every application for a license by any Banker carrying on the business of banking or any function or functions thereof within the Province, and every application for a license by any employee of a Banker shall be accompanied by an undertaking signed by the applicant whereby the applicant undertakes to refrain from acting or assisting or encouraging any person or persons to act in a manner which restricts or interferes with the property and civil rights of any person or persons within the Province, and in the case of a Banker, the application for a license shall be accompanied with the names of the two representatives of such Banker as members of the Local Directorate. Undertaking by applicants for licenses

(5) The Provincial Credit Commission may at any time or from time to time and without notice, suspend, revoke or cancel the license of any Banker or any employee of a Banker who commits a breach of the undertaking referred to in subsection (4) of this section. Suspension, revocation and cancellation of licenses

(6) Any Banker and any employee of a Banker whose license has been suspended, revoked or cancelled by the Provincial Credit Commission, shall have a right of appeal to the Social Credit Board, but such right shall not extend to any person or corporation convicted in the courts of the Province for acting or assisting or encouraging any person or persons to act in a manner which restricts or interferes with the property or civil rights of any person within the Province. Appeal to Social Credit Board

License fees

(7) There shall be paid to the Provincial Credit Commission for the use of the Province annually a license fee in such amount as may be fixed by the Provincial Credit Commission not exceeding:

in case of Banker

(i) in the case of a Banker an amount equivalent to $100.00 in respect of every building within the Province in which the business of such bank is conducted;

in case of employee

(ii) in the case of an employee of a Bank $5.00.

in case of renewal of a suspended, revoked or cancelled license

(8) If the license of any Banker or person employed by a Banker has been suspended, revoked or cancelled under section 3, subsection (6) of this Act, the Provincial Credit Commission may fix a fee in excess of the fee provided in Section 3, subsection (7) of this Act, for renewing the license or issuing a new license; always provided that such increased fee shall not exceed one thousand times the fee paid or required to be paid in respect of the license last issued to such person.

Appointment and functions of Local Directorates

4.—(1) Immediately after application has been made for a license by any Banker, and before the issue of the license, one or more Local Directorates (the number of which shall be in the absolute discretion of the Social Credit Board) shall be appointed to supervise, direct and control the policy of the business of the Banker in respect of which such Local Directorate has been appointed for the purpose of preventing any act by such Banker or any employee or employees thereof constituting a restriction or interference, either direct or indirect, with the full enjoyment of property and civil rights by any person within the Province.

Constitution thereof

(2) Each Local Directorate shall consist of five persons, three of whom shall be appointed by the Social Credit Board, and two of whom shall be appointed by the Banker in respect of which the Local Directorate has been appointed.

Dismissal by Board of its appointees

(3) The Social Credit Board may at any time for any cause which it deems sufficient, dismiss any member of the Local Directorate appointed by such Board and appoint another person to fill the vacancy.

Duration of office of members of Local Directorate

(4) Members of a Local Directorate appointed by the Social Credit Board shall hold office during the pleasure of the Board; and members of such directorate appointed by a Banker shall hold office during the pleasure of such Banker.

Vacancy in Local Directorate

(5) Where a vacancy occurs in a Local Directorate the vacancy may be filled by the Social Credit Board if the member in respect of whom the vacancy occurs was appointed by that Board, and if the member in respect of whom the vacancy occurs was appointed by a Banker, then by the Banker who appointed such member.

Remuneration of Members of Local Directorate

(6) Members of Local Directorates appointed by the Social Credit Board shall receive such remuneration as may be from time to time fixed by the Board with the approval

of the Lieutenant Governor in Council, and such remuneration shall be paid out of such moneys as are appropriated by the Legislative Assembly for the purpose.

Carrying on business of banking by unlicensed Banker an offence: Penalty

5. Any Banker who carries on the business of banking in the Province of Alberta without having first obtained a license under the provisions of this Act or who violates any other provisions of this Act or the regulations made hereunder, shall be guilty of an offence and shall be liable on summary conviction to a fine of not less than five thousand dollars and not more than ten thousand dollars and costs.

Carrying on business of banking or any function of banking by unlicensed employee an offence: Penalty

6. Any employee of a Banker who carries on the business of banking in the Province of Alberta or any function or functions thereof without having first obtained a license under the provisions of this Act or who violates any other provision of this Act or the regulations made hereunder, shall be guilty of an offence and shall be liable on summary conviction to a fine of not less than one hundred dollars and not more than one thousand dollars, and in default of payment to imprisonment for a term of not more than one year.

Incapacity of unlicensed Banker to commence or maintain actions

7.—(1) Any Banker required to be licensed by this Act shall not, while unlicensed, be capable of commencing or maintaining any action or other proceeding in any court in the Province in respect of any claim, in law or in equity.

Cessation of section by Order in Council

(2) The Lieutenant Governor in Council may by proclamation, declare that as and from a date named therein, this section shall cease to have any force and effect and shall stand repealed.

Prevalence of Act

8. Should any conflict arise between this Act and any provisions of any other Provincial Act, the provisions of this Act shall prevail.

Construction of Act

9. No provision of this Act shall be so construed as to authorize the doing of any act or thing which is not within the legislative competence of the Legislative Assembly.

Regulations by Order in Council

10. With the approval of the Lieutenant Governor in Council, the Provincial Credit Commission may make regulations not inconsistent with this Act,—

(*a*) prescribing the rules of procedure in respect of applications for licenses and other proceedings under this Act;

(*b*) prescribing the forms for licenses and application for licenses and the manner governing such applications;

(*c*) prescribing the forms and procedure for taking an appeal from the Provincial Credit Commission to the Social Credit Board under this Act;

(*d*) classifying licenses and licensees and prescribing and regulating the fees including methods of ascertaining or calculating or determining the fees to be paid for licenses;

(*e*) prescribing the privileges, terms, conditions, limitations and restrictions to be granted to or observed by any licensee;

(*f*) prescribing the conditions upon which licenses may be issued and providing for the revocation, suspension or withholding of licenses;

(*g*) for the collection of the license fees, designating the persons by whom the same shall be collected;

(*h*) generally for the better carrying out of the purposes of this Act.

Coming into force of Act

11. This Act shall come into force on the day upon which it is assented to.

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APPENDICES

APPENDIX I—VARIOUS STATISTICAL TABLES

APPENDIX II