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The Douglas Credit Scheme

Two Points of View Put Forward by Major C. H. DOUGLAS and DENNIS ROBERTSON

MAJOR C. H. DOUGLAS: There is little doubt, or indeed, difference of opinion, in circles familiar with these matters, that the root of the world's unrest is to be found in the working of the financial system. A glut of goods on the one hand, combined with the capacity to produce still more goods; and an immense unsatisfied demand for goods, verging on poverty, on the other hand, is ample proof that it is the link between production and consumption which is faulty. The link between production and consumption is money. At this point, however, there is a broad divergence of opinion into a school which suggests that the financial system came down from Heaven and is in itself perfect, while only man, and particularly the banker, is vile; and a school of thought, to which I belong, which suggests that man and the banker would have to be a good deal viler than they are, to make such a mess of a perfect system as would produce the state of affairs existing in the world today. To us, the key to the present distresses is in the word 'debt', with its converse 'credit', and we say that under modern conditions the present financial system automatically creates debts in excess of the power of the public to liquidate them by its outstanding credits.

We know why this is so. The creation of real wealth, goods and services, does not create the money to buy those goods and services. Money is created by the banking system in the same way as if it were created by printing bank notes, and it reaches the community as a debt to the bank, unless issued in payment for securities, which constitute the control of capital assets. If I grow a ton of potatoes, I do not grow the money to buy a ton of potatoes. The banking system makes the money and claims it as its own, and lends it, upon its own terms. Since this money will 'buy' my potatoes they belong potentially, with everything else, to the banks. The money issued by the modern financial system, with the exception of what we might call 'small change', is therefore issued as a mortgage and pays interest to the banking system. If it is a loan, it pays interest directly. If it has been issued in return for the sale to the banks of stocks or shares (since the banks rarely buy anything but debentures or preference stocks) the interest on these stocks also forms a perpetual charge on the money issued. Not merely the interest on the mortgage, however, but the mortgage itself has to be paid off, and the money value both of the interest and of the repayment of the mortgage can only be collected from the public through the agency of prices or, in the case of Government debt, of taxes. As a result of this, the general level of prices is too high for the consumer and too low for the producer. The truth of this contention is proved by the mounting figures of debt which show that we are not from day to day paying our way, and it is significant that this increase of debt is greatest in times of greatest industrial activity, culminating in a situation which produces what we call a 'slump', accompanied by a repudiation of debts both public and private.

Now it is obvious that there is a great difference between a debt which represents the loan of money, laboriously saved through a lifetime of hard work, and invested, let us say, in industrial shares, or in a small business, and the much larger debts which are created by the banking system by writing figures in a book or by printing notes, or lending them. The genuine investments of the public for the most part go to pay off bank loans or costless money which were issued for the purpose of producing real capital in the form of machinery or buildings, and when these loans have been repaid by the investment of the public, there is no money outstanding in respect of these capital assets; it has been destroyed by the bank. The new owners, however, by industrial cost accounting, endeavour to sell the real assets to the public by including them in the price charged for goods and services, and as the money equivalent of these prices does not exist, they fail, or, as the phrase goes, 'their businesses do not pay'.

This portion of the problem, while puzzling, can be shortly stated. The present financial system claims payment in money for the creation of money itself. Since it creates all money, payment in money for the use of money can only be made by creating fresh debt. In addition to this claim by the bank for the use of its money, the industrialist, with much more reason, claims payment for the use of his real plant and buildings; and he claims it also in money. Neither he nor the banking system, however, recreates the necessary money to enable this payment to be made by the public.

This situation is progressively serious, since modern production is machine or capital production rather than hand or labour production, so that the proportion of wages and salaries to capital charges is progressively less. We have, therefore, two problems to solve: first, to make it possible for the general population to buy the goods which are produced by a diminishing number of people, and an increasing amount of machinery, without going deeper and deeper into debt; and secondly, to do this by a method which does not require the whole of the population to be employed. Obviously, we do not do this by the dole system, which merely takes away from one part of the population, by taxation, a certain amount of money for the benefit of the unemployed, but does not in any way increase the total amount of money available.

What are commonly referred to as the 'Douglas credit proposals' consist of a recognition of this situation, and a number of varying proposals designed to meet it. While the principles of these proposals remain substantially the same, the proposals themselves are capable of considerable variation, and are, in the nature of things, bound to be somewhat complex*. The main features of these proposals consist in an issue of money, partly devoted to enabling a large reduction of prices to be made, while ensuring a proper return to the producer of goods, and partly by an increasing dividend to every British born citizen. These two issues provide the purchasing power necessary to form a demand upon the producing system, either up to the capacity of the producing system to meet it, or until the needs of the population are met, whichever is the smaller, and by their adjustment the new situation created by machine production can be met. There is no more difficulty in creating the money for this purpose than there was in creating the enormous sums of money required to prosecute the European War, which amounted to nearly ten millions sterling per day. It can be done without introducing any features into our financial system which are novel in mechanism. Since this money would be retired either by its use in purchasing consumable goods or in the purchase by the public of the securities which represent capital assets, in the same manner that the sale of securities by a bank destroys money, it would not remain as a debt against the public.

Let us turn for a few minutes to the results which would follow the institution of proposals based upon such principles. Poverty, and perhaps even more important still, the fear of poverty, would disappear for ever from this country. At the outset, there would a large increase in employment, since the money would be forthcoming to enable purchases to be made from the shops, and those purchases, by emptying the shops, would fill the factories with orders for goods to replace them. The producer in every grade of life would be assured of a reasonable return for his activities, and, by being delivered from the fear of the irrational booms and slumps which are caused by an irresponsible and defective monetary policy, would be encouraged to employ the best machinery, the best methods, and the best men. As a result of this, we should find quality becoming a more important matter than price. But perhaps the most immediately important effect would be upon international relations, which are a matter more of economics than of what is commonly called 'goodwill'.

The inability of the population of any modern industrial country to buy the goods which it itself produces, makes competition for foreign markets the inevitable policy of any Government, no matter what political label may be attached to it. Since all modern countries are becoming industrialist, it is an impossibility that all countries can export more than they import, and this situation is that which is at the root of modern wars. By the institution of a modified financial system which would rectify this lack of balance between purchasing power and collective prices, and at the same time remove the economic distress which now accompanies unemployment, this pressure to export would immediately be relieved. This does not mean that foreign trade would cease. On the contrary. It is clear that if we cannot buy the goods we ourselves produce, we cannot buy goods which are exchanged for them at the same price. But the ability to buy our own goods sets us free to exchange goods with other nations upon equitable terms. It seems impossible to doubt that such exchange would both take place and would increase, as the progress of the industrial arts enabled all of us to employ more of our time in enjoying the things that we produce, rather than in making them for the purpose of export to undeveloped countries.

You may very reasonably ask, if the difficulties of the world are in essence book-keeping difficulties, which they are, why it should be so difficult to alter them. I am afraid that there is only one answer to this. Imagine yourselves possessed of the sole legal right to create money. Would you be inclined to listen to arguments which would severely modify this monopoly? Probably not. Financial institutions have such a monopoly, and are fighting to retain it. For this reason the first step to a better state of affairs is a wider public understanding of the existence and nature of this 'monopoly of credit', as it is called. I am so convinced myself that a majority of bankers, particularly in this country, are themselves only operators of a system which they take for granted, that I have little doubt that public opinion could be brought effectively to bear upon the international minority who may, perhaps, be considered as unteachable.

Dennis Robertson

I believe that if Major Douglas and I were to settle down comfortably for a couple of days to discuss these difficult matters, we should find that on almost every point raised we started in agreement, but came sooner or later to a parting of the ways. For instance, we agree that banks create money when they make loans to customers or buy securities from the public. But while he looks on this manufacture of money as being necessarily an act of black magic, I look on it as a process which can be carried on in just such a way, and on just such

(*Continued on page* 1039)

*Major Douglas suggests that readers who are interested in the technical side of the proposals should study the draft scheme for Scottish reconstruction, which can be obtained from various organisations on application to Major Douglas, c/o the B.B.C.

The Douglas Credit Scheme

(Continued from page 1006)

a scale, that the banking system becomes what bankers believe it to be, namely, an instrument for putting the savings of the public effectively at the disposal of industry and commerce. Again, we should agree that this 'monopoly of credit', if you like to call it so, gives the banking system a tremendous power over the economic life of the country. But whereas he would infer that this calls for the virtual abolition of banking, as we know it, I should only infer that it calls for a certain measure of control over banking in the interests of the community: and I should be prepared to discuss details as to what parts, if any, of the banking mechanism ought to be in the hands of public or semi-public bodies, and as to whether or no, by this manufacture of money, bankers in fact make incomes which are out of proportion to the services which they render, or to the incomes which other people make by the manufacture, say, of soap or of popular songs.

Again, I should agree with Major Douglas that the way in which, in the course of history, the creation of money, the means of payment, has become tangled up with the business of commercial lending and borrowing, is very peculiar and in some circumstances very inconvenient. At a time of acute depression like the present, the operation of private banking becomes a blunt and clumsy weapon for increasing the flow of incomes and gingering up production and trade; for business men are unwilling to borrow, and those from whom the banks buy securities are often unwilling to *use* the proceeds of their sales. Major Douglas, being, like many engineers, a bit of a poet and a dreamer, is led by this consideration to advocate an ambitious scheme for social credit. I, being, like most university dons, a severely practical person, am chiefly led to the view that at such times Governments should reinforce the cheap money policy of the banks by schemes of useful public expenditure. But in principle I am prepared to go a good deal further than that: and I look forward to the time when public opinion will be much more enlightened in these matters than it is now, and when it will be possible, without fear of undermining confidence, to make much more use then we do now of Government finance as an auxiliary engine to banking policy, by giving money away to people in time of slump and—one must not, I am afraid, forget the other side of the story—taking it away from them by extra taxation in times of over-confidence and over-expansion.

Again, while I suspect that Major Douglas, like many engineers, is prone to exaggerate the increase in recent years in man's powers of production, I should agree with him that they are sufficiently great to set the system of private enterprise a big problem of readjustment, if it is to be as successful in distributing increased leisure among the people as it has been, on the whole, in distributing increased wealth. But I do not think this problem can be solved by any purely monetary device; and, though I am not myself a Communist, I have some sympathy with those who reject Major Douglas' proposals because they hold that drastic changes in much more fundamental matters than the mere machinery of credit will be necessary to put things right.

Finally, I should agree with Major Douglas that our present international troubles are largely due to the tendency of nations to regard a large export trade as an end in itself, instead of as a means to procure useful imports, whether of goods, services or securities. I want to emphasise these points of agreement, because, whether or no it be true that banks have a monopoly of credit, it is certainly *not* true that Major Douglas and his followers have a monopoly of discontent with existing arrangements or of bright ideas for improving upon them. Nevertheless, it is no use denying that their programme is based on an analysis which is peculiar to themselves, and which seems to me, and to many people who are not particularly shocked by their practical proposals, completely fallacious. The point may be put broadly in this way. Most of us think that there are a number of events which may from time to time produce a hitch-up in the stream of money distributed as income and available for the purchase of the products of industry. As one such thing—I do not say it is the chief one, or that it tells us much of itself unless we know the causes behind it—I would instance an increased tendency on the part of business firms to hoard their profits in the form of bank deposits instead of spending them on plant and equipment. But Major Douglas thinks that there is an inherent kink in the whole system of production with the aid of bank credit which makes it inevitable that it should misbehave in this way, and impossible that industry should distribute, in the form of incomes, enough money to purchase its own products at remunerative prices. His reason for thinking this is that only part of the costs incurred in any period of time by a producer of final goods, say a baker, consists of direct payments for wages, salaries and so forth: the remainder consists partly in payments to other producers for raw materials or half-finished goods, and partly in what are called overhead charges. In spite of repeated demonstrations to the contrary, Major Douglas persists in maintaining that these other elements of cost are incapable of generating incomes, and that the business man's attempt to charge a price sufficient to cover them tends therefore to a chronic deficiency of purchasing power. So far indeed as concerns the payments for raw materials, which he has not mentioned here, I think I detect some signs of weakening in his recent writings. I think it is beginning to dawn on him and his followers that the payments made today by the baker to the miller are normally the source out of which the miller recoups himself for the wages he paid yesterday and puts himself in funds for the wages he must pay tomorrow. Production is a continuous process, and so long as no producer or dealer who forms a link in the chain allows his working capital—that is, his goods in process of manufacture or in stock—to become depleted, there is clearly no reason here for any failure of purchasing power. I hope, as I say, that Major Douglas now realises this: but as regards the overhead charges for buildings, machinery and plant, he is, I gather from his remarks here, quite impenitent. Such charges are, he has recently said elsewhere, 'allocated', but they are not distributed. Whereas most of us innocently believe that business men make these charges for the very good reason that they have payments to make, not perhaps continuously, but periodically, for the upkeep of plant and its eventual renewal—payments which generate incomes for other people—Major Douglas seems to believe that they are phantom charges, paid out to nobody and having no real existence outside the ledgers of a perverse system of accountancy. Or rather he seems to hover between believing this and believing that they are paid to the banks to extinguish the capital of bank loans. This, no doubt, happens on occasions in individual cases; but if industry *as a whole* were normally and progressively getting out of debt to the banks in this way, it would be hard indeed to explain how banking could be such a profitable business as Major Douglas believes it to be, or indeed could continue to exist at all.

Now Major Douglas' schemes of social credit must be judged not with reference to our general views about increasing consumers' purchasing power in time of slump, but as the logical fruit of this peculiar analysis. For he wants to present consumers, not as an emergency measure but permanently, with enough money to bridge the whole of the gap which he thinks he has discerned between the normal total of incomes and the normal total of business costs; and if this gap exists at all, it is, as he himself insists, very large. In my judgment, it does *not* exist, and the adoption of his proposals would therefore be either disastrous or ineffective. If the new money were dished out as 'consumers' dividends' the stream of expendable money in each period of time would come, sooner or later, to exceed enormously the value, at existing costs of production, of the output produced during the period: and, as all experience shows, no system of price control can prevent such a situation from leading to the most damaging results. If, on the other hand, as I think is sometimes suggested, the new money is paid over to producers on condition that they do not use it in any way that generates incomes, and that they reduce prices to the level necessary to cover only their direct payments for wages, etc., then I am afraid the producers' reply would be, 'Thank you for nothing'. For money which, in Major Douglas' words, 'is retired by its use in purchasing consumable goods', that is to say, which must not be employed again by the producer for any useful purpose, is bogus money, and its receipt would be cold comfort to the producer who has very real and concrete payments to make provision for.

In conclusion, in order that you may have material for judgment, I should like to ask Major Douglas three plain questions. First, does he or does he not now agree that payments by one producer to another for raw materials are an essential link in the chain that generates incomes, and that the making of such payments does not therefore normally give rise to any deficiency in purchasing power? Secondly, does he or does he not still maintain that industry as a whole, over considerable periods of time, makes book entries for overhead charges which are enormously in excess of its disbursements for interest and dividends and for maintenance, renewal and extension of plant? Thirdly, does he or does he not hold that deficiency of purchasing power arises partly because industry as a whole is normally and progressively repaying its capital indebtedness to the banks? And if this is the fact, how does banking continue to be such a profitable business as he believes?

Major C. H. Douglas

I have considered Mr. Robertson's reply with the closest attention. I cannot find in it even an attempt to meet the arguments which were raised in my opening remarks. If I am not misrepresenting him, he agrees with me up to a certain point, but at this point he very kindly makes a completely new speech on my behalf which consists, I think, of his own interpretation and paraphrases of certain matters with which I have dealt in my books, and, in a simpler form, here. He then expresses his own disagreement with his own paraphrases. I do not think that I can be expected to accept this as an answer to my arguments.

He finally asks three questions. The general, and I believe irrefutable answer to these questions is contained in my opening explanation of the working of the financial system. I should be delighted to answer the questions in the form in which he puts them, but not in five minutes, and not to the exclusion of comment on certain of his statements. He kindly suggests that, like many engineers, I am a bit of a poet and a dreamer, while, like most university dons, he is a severely practical person. I would remind him that the dreams of engineers generally come true. Engineers have been responsible for most of the technical advances of the past century, while the business system, and its severely practical persons (of whom I should not, of course, myself suggest that Mr. Robertson is one) are suspected of causing most of our present difficulties.

I think he does himself injustice when he contemplates quite definitely a succession of booms and slumps as an inherent feature of industry to be met by alternate gifts of money or punitive taxation. I see in this evidence that there is something about distributing more money, even if more goods to buy with it exist, which terrifies many people. Mr. Robertson does not specify the more fundamental matters in which changes are required, and I will leave it to listeners to decide whether, while more weighty matters are adjusted, they would appreciate relief from the risk of poverty in the midst of plenty.

He suggests that I call for the virtual abolition of banking; I should be interested to know the authority for this statement and also for the statement that I am prone to exaggerate the increase in man's powers of production. There is a suggestion, I think, that I am attacking the money profits made by banks. I have never done so because I do not regard the matter as important. I regard the money system as properly nothing but a ticket system, and if banks or even bankers actually used their share of tickets to absorb production there would be less ground for criticism. They cannot do this, and consequently are driven to finance unsuitable products. Mr. Robertson suggests that money which is retired by its use in purchasing consumable goods is bogus money. I should retort that practically all money used in purchasing consumable goods is in fact retired, together with a good deal used in purchasing non-consumable goods. The former is correct, but the latter is not.

My own feeling as to the real divergence between the orthodox economist and the engineer is that the orthodox economist cannot see any difference between the single stage production of two hundred years ago and the present power production system, and never quite makes up his mind as to whether the money system is a system of government or an accounting system.

Dennis Robertson

I'm afraid Major Douglas feels a little aggrieved that in commenting on his proposals I have felt obliged to go outside his rather vague opening statement here, and to draw also on the more definite accounts which he has given of his theory in his published writings. I had to do that, because, as I have said already, his scheme must be judged, not as one among many emergency devices for increasing purchasing power in trade depression, but as the logical outcome of a peculiar theory about the existence of a chronic gap between costs and incomes: and unless you had had the broad outlines of that theory brought before your minds, it would not have been fair to ask you to form a judgment on the practical proposals which grow out of it. I hope that those who have read Major Douglas' works will agree that I stated that theory, in the few minutes at my disposal, as clearly as it can be stated. It cannot be stated perfectly clearly, because it contains a fundamental muddle, and because it is impossible to pin Major Douglas down to an exact statement as to what happens to the costs or charges which, according to him, are entered up by accountants in their books, but are never distributed as incomes to any individual. I am very sorry, though I realise that the time at his disposal was very short, that he did not think it worth while having a shot at answering even one of my three questions, which I assure you are the essence of the whole matter.

My reason for suspecting that Major Douglas exaggerates the increase in man's powers of production is that, if he did not, he would see that the continuous dishing out of money on the scale which he proposes would before long take up the slack which at the present moment admittedly exists in the shape of unused labour power and plant working below capacity, and generate a tremendous inflation. The only thing which could prevent this would be if the money were issued direct to producers in consideration of a reduction of prices, and were in some way sterilised so that the producers could make no use of it. In that case it would, as I have said, be bogus money and unacceptable, and the scheme would never come into operation.

I don't want to suggest that Major Douglas thinks that bankers and bank shareholders get excessive profits, though I shouldn't be in the least shocked if he did. But if he is right, the banking system as such, through no fault of those who operate it, is a public nuisance, so that any profits made by its operation are in a sense excessive. And if his scheme really enabled producers to obtain, without recourse to the banks, all the money they need to meet all their costs, except direct wage and salary payments, banking would become so nearly superfluous that I do not think the phrase I used, 'the virtual abolition of banking as we know it', is too strong.

When I heard Major Douglas declare that if his proposals were adopted poverty and the fear of poverty would disappear for ever from this country, I felt as sorry as I should if I heard somebody who set up as a medical expert make the same claim about disease. For I believe that his assertion that the difficulties of the world are in essence mere book-keeping difficulties, which he knows how to solve, has done much harm in spreading false ideas and raising false hopes in the breasts of many sincere and well-intentioned people.

Books and Authors

Peacemakers at Versailles

Peace Making, 1919. By Harold Nicolson. Constable. 18s.

Some Memories of the Peace Conference. By Colonel R. H. Beadon. Lincoln Williams. 12s. 6d.

MR. NICOLSON'S BOOK is the best study of the Peace Conference which has appeared, and, like him, I think I have read most of them. The Conference met at the psychological moment of juncture of two completely antithetical waves of public opinion, that of unreasoning against Germany and that of international peace and good will. The result of this strange amalgam was the Treaty of Versailles, as wry-necked a child as one might expect from such strange parentage. Mr. Nicolson recalls the hopes and fears which so many felt at that time, and in his chronicle there is seen the gradual tarnishing of the hopes and realisation of the fears. In the first part of the book the author puts the Conference, as it were, on the dissecting table, and analyses the causes of its failure, some avoidable, some inevitable. The analysis is brilliant, shot through with satiric humour. The results, too long to enumerate here, convinced Mr. Nicolson, and may well convince many of his readers, that the mixture of open and secret diplomacy which prevailed at the Conference is neither 'fish, flesh, fowl, nor good red-herring', and that the system of 'open covenants secretly arrived at' is preferable. Mr. Nicolson's diary of the Peace Conference, which forms the second part of the book, is printed, he assures us, because 'in its chirpy triviality' it reflects the very atmosphere which he desires to convey. The atmosphere was one of amazing inconsequence, 'a complete absence of any constructive method of negotiation'. He himself describes his work as 'a study in fog'. This it may be, but it succeeds in dissipating for the reader many of the mists which have hitherto enshrouded the Conference and will lead to a clearer understanding of those unhappy months in Paris when the world confidently believed that the rents in the system were being carefully mended, and awoke later to the fact that they had merely been inexpertly cobbled together.

The main thesis of the book is this: 'Given the atmosphere of the time, given the passions aroused in all democracies by four years of war, it would have been impossible even for super-men to devise a peace of moderation and righteousness'. There can be no question of the truth of this statement. The effects of four years of increasingly bitter propaganda could not be undone in a few months; indeed, it is uncertain whether they have yet been undone today, some fifteen years later. Can propaganda be disarmed? Mr. Nicolson neither whitewashes the Conference nor damns it unreasonably. He *explains* it by a variety of means: vignette, parable, history and so on. The relentless realism of Clemenceau, the theological obsession of Wilson, the volatility of Lloyd George, all are shown. The result is not only an excellent entertainment, but a most invaluable contribution to the literature of the Peace Settlement.

After Mr. Nicolson, one must regretfully say that Colonel Beadon is rather small beer. He has little original to say about the Peace Conference or of the British Delegation, and by far the best part of the book is the last three chapters in which the author recounts his 'Diversions' during the Conference, his 'Peregrinations' on various missions, and his work later with that very 'hush-hush' body, the Conference of Ambassadors, the legal executors of the Treaties of Peace. The author has some excellent stories that give point to Mr. Nicholson's fog-theory, which Colonel Beadon confirms.

JOHN W. WHEELER-BENNETT