Present Discontents
and
Labour Party and
Social Credit

By

C. H. DOUGLAS

LONDON:

CECIL PALMER

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C. H. DOUGLAS

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"Credit Power and Democracy"
"Control and Distribution of Production"

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These Present Discontents.

I.

Whether or not the Great War has released the immense flood of criticism on every subject, which is the feature of the moment, or whether, as is probable, a position would in any case have been reached by this time in which a large majority of the world's population must have become profoundly dissatisfied with their lot, is no doubt arguable. But that such a position has arrived surely no one would deny. Even the hard-shelled Tory, if he be anything at all of a realist, must admit that, reasonably or otherwise, his opponents are making the working of that pre-war world to which his eyes turn back with longing, and to the restoration of which his energies are bent, an arduous and uncomfortable undertaking; while the audacious seekers after that New World so confidently promised as the logical consequence of a victorious peace, seem united on one subject only—the determination to make the old one as uncomfortable as possible for everybody.

Viewed dispassionately, therefore, it seems fair to assume that we really are on the eve of great, even fundamental, changes; that, while change must come, it is childish to believe that any sort of change will do; and, in consequence, to grant that it is of vital importance to know what is amiss with civilisation, as a preliminary to prescribing for the malady.

There are already a number of popular remedies on the market—there is State Socialism, for instance. State Socialism, however, is a little under a cloud—most people are more anxious to learn how it can be avoided than conspicuously eloquent on its merits.

The orthodox, or rather Majority, Guild Socialists, for example, explain that the nationalisation which the miners want is something quite different from that which Mr. Sidney Webb and the Fabian Society want, and are concerned very largely to assure their followers that, under Guildism, there will be no bureaucracy, or, at any rate, there will be quite a new kind of bureaucrat, warranted free from any of the old-world characteristics on which many people hold strong opinions. And there is Bolshevism.

But it is a curious fact that almost the only feature that these prescriptions for the disease of the body politic have in common is that they are all more or less novel systems of *administration*, i.e., they assume that a new mechanism is required. It is quite true that they are uniformly introduced to our attention by moral and metaphysical arguments of an exalted nature, but the concrete embodiment of these sentiments seems to suggest that the whole problem is to design a social structure which will still more effectually subordinate mankind to it, rather than that he might be enabled progressively to conquer the machine which now enslaves him.

Before breaking up the wonderful machine of civilisation and industry as we know it, therefore, it is well to remember that there is prima facie evidence that, considered simply as a machine, it is deserving of a high degree of respect. By its aid all the wonderful achievements of the nineteenth and twentieth centuries have materialised, nor can the misuse which has been made of some of them be laid to its discredit. An organisation which permits a coolie in India to grow rice and jute in the certain knowledge that cotton fabric from Manchester will accrue to him as a result, is a good organisation per se, and there is absolutely nothing in the published plans of any Socialist body which offers the slightest prospect of replacing effectively the arrangements which at present enable such co-ordination of effort to function. If, therefore, we are in possession of an effective mechanism, built up by centuries of trial and error, we want to be very sure that our difficulties arise from the system as a whole before becoming irrevocably committed to its destruction.

There is another aspect of the question, however, which has only an indirect connection with administrative mechanism, and that is policy. Now, as that sturdy patriot Sir Marcus Samuel,* observed the other day, as he made the price of petrol four times what it is in America, there is no use in mincing matters. There are only two Great Policies in the world to-day—Domination and Freedom. Any policy which aims at the establishment of a complete sovereignty, whether it be of a Kaiser, a League, a State, a Trust, or a Trade Union, is a policy of Domination, irrespective of the fine words with which it may be accompanied; and any policy which makes it easier for the individual to benefit by association, without being constrained beyond the inherent necessities of the function involved in the association, is a policy of Freedom.

As between these two policies, there could be no greater mistake made than to assume that all would-be reformers are aiming at freedom, though many of them, no doubt, honestly think that they are. The fanatical Labour theorist, who would deny the right to live to any person not engaged in orthodox toil, quite irrespective of the facts of wealth production; the Trust magnate who intrigues for Prohibition because it reduces his premium for Workmen's Compensation Insurance, or corners an essential article under the pretext of efficient production, are, no less than the mediæval ecclesiastics who burned men's bodies that

* Since, Lord Bearsted.

their souls might live, practical exponents of salvation by compulsion. It may be worth while, therefore, to see whether the industrial and social machine, as now operated, may not be equally the instrument of either policy.

As to every-day, practical, individual freedom, it will no doubt be granted that any man or woman who at the present time is in possession of a stable income of the "unearned" description, of, say, £1,000 per annum, is economically free, i.e., such a person is sure of a reasonably high standard of life, even though his opinions may be highly distasteful to a large number of people.

This statement is only true, however, so long as the general level of the prices of those articles which are actually used to make the standard of living, i.e., ultimate commodities, remain as at present. But let us imagine that the control of all housing came into the hands of one man, who bought each house at ten times the present market cost, obtaining the (no doubt fabulous) sum of money required by means of an overdraft at the banks, *based on his ability, under the circumstances, to make the rents of houses ten times what they are now*, then this statement would no longer be true. Our hypothetical freeman would once again have become a slave because his necessities would force him to obtain more "money" on any terms imposed by those in control of it. The essential thing which would have happened is that a Housing Trust would have come into possession of the whole of the *credit-value* attaching to the *demand* for houses, and would have been able to make any price for a house, so long as that price enabled the Trust to retain the bank-credit with which the house was bought.

We may observe that in this simple example we have a complete instance of the embodiment of two diametrically opposite policies, the machinery permitting either of them, so far as we have so far seen, to become effective. The only essential to the complete ascendancy of the hypothetical Trust (which might, and probably would, be not only economic, but moral and intellectual) is that it should centralise the credit, and retain the power of price-making. In order to make the analysis of any value, however, we have both to ascertain whether such a centralisation of credit is probable, whether the function of price-making is indissolubly attached to it, and whether, in the first place, our economic freeman had any "right" to be in possession of "unearned" income (and so may be the prototype of the New Citizen), or whether it was merely obtained at the expense of someone else, as the orthodox Socialist would have us believe.

II.

In order to arrive at a sound conclusion in these matters it is necessary to start where all things start—in Nature—and to decide what are the motives which actuate men in this connection with the economic and industrial systems; and it is true, as well as proverbial, that self-preservation is the first law of Nature. Man does not live by bread alone, but he does not live very long without a reasonable amount of food, clothes and shelter. Secondly, and subsequently, he requires, and this increasingly, an outlet for the creative spirit. It may be noted in passing that it is just at this point that the "intellectual" is apt to fail in interpreting the great mass of humanity engaged in a deadly grapple with the weekly household bills, a battle which must in most cases be won decisively before the surplus energy becomes available for the satisfaction of the need of self-expression.

It is in the nature of things that the provision of food, clothes and shelter involves a conversion of energy, i.e., it means work, in the mechanical sense of the word; and when man had no available store of energy on which to draw other than that contained in the food he ate and converted into muscular capacity to do work, these things inevitably took up a good deal of his day, although there is good evidence that, by the fourteenth century, in England, a very tolerable material standard of comfort was maintained without excessive toil. At the present time, when every man, woman and child has on the average at least ten times the mechanical energy of the strongest man, at the door, if not at command, and the knowledge available for its beneficial use is incomparably greater, the struggle for existence is yet probably more intense than ever it was, and large classes of the working population live under conditions which are frankly abominable.

There is no doubt whatever that this is an anomaly due to misdirection of effort, and, bearing in mind the primary motives which actuate men in the mass, it is clearly vital to see if possible where this misdirection occurs—why men, working hard for comparatively long hours, with marvellous tools and almost unlimited mechanical energy at disposal, seem yet powerless to achieve even elementary economic security.

We have agreed that the *primary* purpose for which men work is food, clothes and shelter. The modern industrial system does not allow of the direct exchange of service for these things, but of necessity introduces a common medium which we call "money," which is defined as "any medium which has reached such a degree of acceptability that no matter what it is made of, and no matter why people want it, no one will refuse it in exchange for his product" (Professor Walker). Consequently, in order to meet the primal necessities, men work for money, having always at the back of their mind that so much money represents so much satisfaction of these primal needs. It should be particularly observed that it is this faith, this credit, which gives money its value, and it is therefore true to say that all money is, or is fundamentally dependent upon, credit.

But (although the fact does not appear to have received any general recognition) there are two conceptions of credit, one, that of the worker, and a second that of the financier and banker. The worker for wages or other forms of pay gives " credit " to the idea that the more he produces the more satisfaction of primal needs is thereby made possible, i.e., this *real* credit is based on the *rate of delivering the required goods*. The financier uses this belief as a basis for *financial* credit, which is essentially a measure of the rate of making money. The nexus between these two " credits " is prices, and it is part of the argument with which we are concerned to show that it is in the lengthening of this nexus that misdirection of effort must occur.

The modern industrial system has an outstanding characteristic—it is the Machine Age; and men are increasingly employed and paid for making machines which themselves perhaps only perform one out of many of the processes which go to the production of something men really want in itself, an ultimate product, and these same men, *as individuals, do not want these machines for the making of which they are paid; they only want the ultimate product.*

Consider what happens to the money aspect of these ultimate commodities. Men must have them, and " it is no use mincing matters, the price of an article is what it will fetch." The rules of the game allowing it, retail prices will rise until the whole of the money paid for the production, not only of these goods but of the capital and export goods being produced at the same time, has been absorbed, assuming only that there is competition to buy and not to sell. This has the effect that if the upper limit of price is fixed, as at present, by "supply and demand," the price-maker is enabled to make such prices for ultimate products as will return to him the purchasing power distributed, not only in respect of these products, but of the plant which produced them, leaving him in control of all this plant, a situation which in turn enables him to control both the quantity and variety of its output, and so maintain his control over prices.

We are now in a position to see that a centralisation of financial credit is not only probable, but certain, so long as certain premises go unchallenged. What is the effect of this on *real* credit?

Now, if the purchasing-power distributed both in respect of capital goods (machinery, factories, etc.), and consumption (ultimate) commodities is always taken back from the public in the price of ultimate commodities only, two things will clearly happen. Since the illusion of the constant necessity for strenuous effort must be kept up, the price-makers will want to make as many capital goods as possible, and deliver as few ultimate products at home as will avoid revolution; and the workers who compose the mass of the public will progressively cease to believe in the purchasing-power of work for money, and will demand goods of the kind for which they have a use. That is exactly what is happening at the present time. In spite of the fact that, for instance, hundreds of thousands of houses are needed urgently in Great Britain alone (the position is almost as bad in America) the building trades are busy to the limit of their capacity in building or extending factories or other capital properties; while Labour is more and more determined to ignore scales of pay, and to insist on adequate standards of life, and, at the same time, and rightly, has completely lost patience with the generalisation that increased production is the solution of all our difficulties.

The end of all this is surely clear. In the moment when the victory for financial centralisation is complete, so also will the separation of real credit from financial credit leave the " victors " with a mass of monetary wealth which will not induce the baking of a loaf of bread. We shall then have Bolshevism; not the Bolshevism of the idealist, probably including in that category M. Lenin, but the Bolshevism which the policy of the destruction of the credit attaching to money has forced on M. Lenin, which replaces inducement by compulsion, the banknote by conscription of Labour. Perhaps the realisation of this has reconciled our masters to Bolshevism.

However that may be, to those who do not look forward with undue enthusiasm to the apotheosis of the machine-gun, the re-identification of real credit with financial credit is the vital issue; and it is proposed to show that this is dependent, in the first place, on the removal of the price-fixing process from the play of financial supply and demand, and the reference of it to the ratio between the credit-value of capital-production and the diminution of that credit-value by consumption.

III.

It is to be hoped that the previous articles have made it clear that the decay of *real* credit is inextricably involved with a disbelief in the bona fides of those in control of the policy of industry; a disbelief which cannot fail to be intensified by the observation of the luxury which this control enables its possessors to enjoy. It is entirely beside the point that, in one sense, the accusation of conscious terpitude may be unjustified; that many so-called Capitalists are men of the highest probity and culture, and that most of them can no more help making money than a cork can help floating—the embittered toiler is apt to say, in effect, that, being in control, they should deliver the goods, and that as they do not deliver the goods, except to themselves, they must be put out of control.

Eliminating rhetoric and personalities, he is right. The practical object of the whole economic and industrial system is to deliver, not "more," but the right quantity of the right goods to the whole of the people, with the minimum of discomfort to all concerned, the people themselves, i.e., individuals, being the judge both as to quantity and rightness. *After* that object has been attained, the productive organisation may legitimately be an outlet for creative activity. At no time is it a legitimate object of the general productive process to "provide employment" for the purpose of distributing wages—to make things which the public do not need, and the makers do not enjoy making, in order that some canon of obsolete theological morality, or the premises of an effete financial system, may thereby be satisfied. Still less is it a legitimate tool of the will-to-govern.

It will be seen, therefore, that the new motive in industry which is required is not something founded on a half-understood altruism, but rather on a well-founded assurance that if the best results are not being attained it is because they are practically unattainable, not because some person or class is obstructing their attainment. This amounts to a demand for the control of the policy (not the processes) of industry in the interest of the consumer, since his demand is the source of all *economic* production, and we may notice in passing that there is no doubt here, in all probability, that the State Socialist error (for it is an error) took its rise—in the idea that this control of policy is resident in administration; whereas it is resident in Finance, in Credit issue, and price making. "Socialise" these, and there is no need to, and you had far better not, nationalise administration.

At this point it is necessary to make clear a fundamental proposition. Men associate together in industry because there is a true unearned increment in association—a telephone system requires a population to give it a value; ten men pulling on a rope can accomplish that which ten separated men could never achieve. With the growth of machine production and the utilisation of non-human sources of energy, this unearned increment is growing enormously more important than the earned increment about which the Syndicalist, in particular, is so concerned.

This unearned increment rests inalienably on a basis of Capital, not of Labour; and if Capital derives from, and should be vested in the community, as is, broadly speaking, incontestable, then it is as members of the community, tout court, unconditionally, that individuals should benefit by this unearned increment. The dividend is the vehicle for the distribution of this unearned increment, and it is in the universalisation of the dividend, and not in its abolition, that we shall achieve freedom. Only when this is realised will it be grasped that it is better for everyone concerned, and especially for Labour, that the routine operators of the plant of civilisation should be selected solely for efficiency, subject to the most drastic competition, and progressively displaced by machinery.

Dividends on Capital, then, come from a true unearned increment, and the recipient of dividends is only the pioneer of the future Citizen. But a dividend, in the ordinary sense of the word, is a payment of "money," of which we have already seen credit is the vital component, and although credit derives from the community, the organ of credit-issue, its mobiliser, is the bank. The most important and fundamental function of a bank should be to envisage the capacity of the community it serves, taken in conjunction with its plant and culture, to meet the demands made upon it; and, *under democratic control, to issue purchasing power, on behalf of the community (the true State) up to the limit of this capacity, so that as individuals the units composing the community can set in motion the machinery which will make such demands effective.*

Let me repeat, there must be somewhere something which stands as Trustee for the unearned increment of association above referred to, the greater part of which is inherited from a past generation. This Trustee we may call the State, and his agents the banks. Then it must be clear that it is the business of this Trustee to divide amongst the tenants-for-life of the estate, its benefits, i.e., the State should lend, and not borrow, purchasing power, and that for the benefit of individuals, the consumers.

Currency being merely a sort of conveyor-belt for this purchasing power, the form the currency may take does not affect the question at issue. The strenuous efforts being made at this time to re-establish gold as the basis of currency are simply the outcome of the desire to monopolise the conveyor-belt in the interests of a comparatively small gang of persons who own the gold.

If, therefore, we can make the bank the servant of the consumer, and not, as at present, the tool of the financier and the price-maker, we can see that the bank only "lends" to those enterprises which result in ultimate goods and services needed by individuals for personal use; in other words, we can democratise the *policy* of production.

While the dividend is clearly indicated as the final method of distributing the goods and services which form the material basis of civilisation, it is not yet universalised, and, while aiming at its rapid extension, it is vital to the survival of real credit that the unearned increment should at once be widely distributed. If we reduce prices below cost, i.e., below the sum of the purchasing-power distributed during the production of the goods for consumption-use, and make an issue of financial credit to the producer to enable him to carry on his business on the orthodox principles, we have, in effect, given a share of this unearned increment to every consumer, and left him with an additional credit-power to form the basis of his future dividends. The basis of this financial credit issue has already been indicated; it is dependent on the ratio between the credit value of both capital production and ultimate production and total consumption.

It should be noticed that the control of credit issue and the regulation of prices are interdependent—you cannot tackle one of them alone. Such issues of credit are constantly in progress at present, and simply put up prices. Similarly, any attempt to *fix* prices results in the stifling of all initiative and the inevitable ascendancy of a bureaucracy. It is outside the scope of these paragraphs to deal with the mechanism necessary to put the principles herein outlined into practical operation, but it may be said that it is of the simplest description, and is practically all of it in existence. The writer will be happy to explain it to anyone who is sufficeintly interested to write to him on the matter.

In conclusion, it may not be out of place to glance briefly at some of the results which might be expected to accrue from the adoption of the policy indicated; and this aspect of the question can hardly be better put than in the words of Mr. A. R. Orage, quoted from a pamphlet printed for private circulation :—

> " . . . these results are brought about with the minimum disturbance of existing social arrangements, yet with immediate social relief. No attack is made upon property as such, or upon the rights

of property. No confiscation is implied, nor any violent supercession of existing industrial control. no sudden or difficult transformation on the part of the State is presupposed. Nor are men expected, as a condition of the practicability of the scheme, to be better than they are. The scheme, in short, presupposes only what is.

"Nevertheless, from the moment that it is adopted, considerable changes are effected, and fundamental reconstruction is induced. Prices would fall to a level unknown in this country for five hundred years, and that without loss to the producer; and real wages (in other words, the purchasing power of wages) would correspondingly rise. Production would be enormously stimulated by the diffusion of spending power; yet, at the same time, extravagant consumption would be checked by the operation of the ratio of Price and Cost. Invention would obviously be encouraged by a common and palpable interest in labour-saving : and in general the whole of Industry would at once begin to respond to the spirit of a real co-operative Commonwealth.

"What democracy has effected in politics, that and much more would be effected by democracy in economics. . . . It is certain . . . that its adoption would so profoundly modify the commercial relations of all nations as to remove the principal cause of war between them."

The Labour Party and Social Credit.

Some sixteen months after its constitution, the Committee set up by the Labour Party has presented its Report on what it terms the Douglas-New Age Credit Scheme, by which presumably is meant the Draft Scheme for the Mining Industry. It is an important Report, not as containing any contribution to the solution of the problems with which it purports to deal or as advancing any valid or competent criticism of the principles or details of Social Credit, but rather as a concrete instance of the defective working of Labour Party organisation; defective, that is, in the sense that the aims of the rank and file and the Central Executive have not so much in common as those of the Central Executive and their alleged adversary the "Capitalist."

To those painstaking students of "Economic Democracy" who have grasped the bearing of the analysis of centralised organisation contained in the earlier chapters of that book, on the more obviously practical conclusions of the later chapters, the spectacle of a Committee appointed by a centralised Labour Party to examine the Douglas-New Age Mining Scheme, reporting almost automatically in favour of "Nationalised" Banking, will not lack a certain acid humour.

It is convenient to dispose at once in general terms of the technical findings of the Report. They will be dealt with in detail in an appendix to these articles.

On page 5 the Report concludes an examination into the statement that the rate of flow of purchasing power into the hands of consumers is not and never can be adequate to purchase the goods available to them. As a result of this examination it decides that the contention is fallacious and that the Committee cannot accept it as a statement of fact, and on this finding bases the Report.

This objection is the familiar and elementary objection to emphasis on the decisive importance of credit. It has been dealt with, and I think conclusively dealt with, in a brief form, as a reply made to an article by Mr. J. A. Hobson, one of the members of the Committee. It is to be presumed that Mr. Hobson published his article subsequently to the completion of his labours on the Committee in question. This reply may for convenience be repeated here.

" In regard to this objection, it is a simple statement of fact to say that as the majority of the working population are wage earners, paid weekly, and spending within a few per cent. of the whole of their week's wages in the current week, it is a physical impossibility for the wages of the current week to buy the production of the current week; it is not in the market to buy. It probably will not come into the market, on the average, for at least six months. They are buying the production, or part of the production, of a fairly long past week, by drawing on the purchasing power which goes to make up the costs of an unspecified quantity and variety of goods which will be delivered sometime in the future. To reiterate categorically the theorem criticised by Mr. Hobson, the wages, salaries and dividends distributed during a given period do not, and cannot, buy the production of that period; that production can only be bought, i.e., distributed, under present conditions by a draft, and an increasing draft, on the purchasing power distributed in respect of future production, and this latter is mainly and increasingly derived from financial credit created by the banks.

"But further, because the general level of prices above cost is equal to money/goods, these drafts on future production still further raise present prices, hence general increased production under present conditions means either rising prices (instead of falling prices) or unemployment and failure of distribution. Prices cannot fall below cost plus a minimum profit, under present conditions, since profit forms the inducement to produce.

"To put it another way, the rate at which money can be spent this week does not depend at all on the goods which can be, and are, *supplied* this week, and is not part of the cost of the goods which can be supplied this week. An increase in the money paid this week is identical with any other form of money inflation under present circumstances—it widens effective demand, stimulates production, and raises prices. The real price paid for the *consumable goods* bought this week is approximately a week's production of both capital and consumable goods (including exports) to be supplied at some future, and increasingly future, date, and there is nothing in the arrangement which guarantees that a larger amount of *consumable* goods per head can be bought in the future as the result of a larger amount of money distributed this week."

This is, I think, a deductive proof of the theorem to which the Labour Party's Report takes exception, and on which exception the technical portion of the Report is based. But, of course, by far the most important proof is the demonstration given since 1921 of the result of restriction of credit. If wages, salaries and dividends would buy the product, and when recovered in prices would pay for product to replace it, then why did an avalanche of bankruptcy, unemployment, and semi-starvation follow the restriction of credits in 1920-

1921? And how is it that in spite of most unscientific, and very probably wilfully unscientific, methods of inflation, Germany has suffered none of these things, and is in fact *economically* far stronger than at any time in her history? The Committee, however, do not appear to have noticed these events.

So much for the main destructive criticism of the Report.

In order, however, to obtain a just perspective of this document it is necessary to consider, not so much its subject-matter, as,

(1) The genesis of the Report.
(2) The composition of the Committee.
(3) The date on which the Report is issued.
(4) The impression it is intended to convey.

(1) In 1920 many of the best elements of the Scottish Labour Groups were profoundly dissatisfied with their position. The Sankey Report had been shelved, and it was well understood that a combined drive towards the reduction of wages was imminent. There was a general feeling that a great opportunity had been lost and a strong disposition to blame the agitation for "Nationalisation," as being responsible for the situation. Some suspicion had also been aroused by the solid and implacable opposition on the part of the mine-owners to the tentative introduction of the subject of prices into the Miners' demands. Under these circumstances the Draft Scheme for the Mining Industry, drawn up by the writer, and most ably expounded by Mr. A. R. Orage in the first place, obtained substantial support, with the result that the Central Executive Committee of the Miners' Federation was formally advised by the Scottish Labour Advisory Committee, in January, 1921, to investigate the Mining Scheme in the following terms:

"Some of us are not prepared as yet to endorse all Major Douglas's views; but we are convinced that bank credits are one of the main constituents—if not indeed the main constituent—of selling prices; and that no final solution of the problem is possible that does not bring the issue of credit and the fixing of selling prices under the community's control.

"We recommend that the Executive of the Miners' Federation of Great Britain be asked to investigate Major Douglas's scheme for introducing credit reform via the mining industry."

It will be noticed in this reference that no information is required on the issue to which the Report largely confines itself; the Scottish Labour Advisory Council expresses itself as satisfied that bank credits are one of the main constituents of prices and asks that an enquiry should proceed from that point. The Central Executive of the Miners' Federation, however, apparently referred the whole matter to the Central Labour Party Executive, which latter body appointed the Committee in question, with its own terms of reference. This Committee in its report makes no mention of the findings of the Scottish Labour Advisory Council, and the Committee's findings are in fundamental conflict with the opinions of that Council as they are quoted above. The point of this is that, while the Scottish Labour Advisory Council quite clearly expressed a recommendation and an opinion:

(a) That recommendation was not accepted.

(b) The opinion was disregarded.

(c) A Committee was appointed with which in all probability the Scottish Labour Advisory Council would not have been satisfied had it been asked for an opinion.

(d) That Committee from its constitution could not logically submit any other description of report than that which it did in fact submit.

II.

(2) THE names of the gentlemen composing the Committee are given in the first paragraph of the Report. They comprise: Sidney Webb, R. J. Davies, M.P., Frank Hodges, F. B. Varley, G. D. H. Cole, Hugh Dalton, J. A. Hobson, C. M. Lloyd, Sir Leo Chiozza Money, R. H. Tawney and Arthur Greenwood (Secretary), but it would be, probably, unfair to imply that all of these are responsible for the Report. None of them has signed it as published, and it is nowhere stated that it is unanimous. There is unimpeachable authority for the statement of one member that as the rest of the Committee knew less about the subject of Credit than he did himself, which was not much, he proposed to have as little as possible to do with it.

But, with the exception of Mr. J. A. Hobson, a Liberal economist who may reasonably be dealt with in a technical Appendix, and one or two Labour members of the National Executive of the Labour Party, the Committee has two characteristics which are of decisive importance. In the first place, excepting again the Labour members, who may be presumed to have worked at a trade some time in the past, not one of the Committee has any first-hand knowledge of economic production. It is true, Mr. Sidney Webb has written a book on the Works Manager; but it is fairly safe to assert that any Works Manager would be in a position of some difficulty if called upon to find a use for Mr. Webb in his works.

Disregarding the internal evidence to that effect, which is sufficiently conclusive, it is clear also that the Committee does not itself claim to have any first-hand or original knowledge or ideas on the subject of Finance. In consequence "it had the advantage of the active co-operation of an experienced Bank official" who is too modest to disclose his name. The *evidence* of an experienced bank official, at a properly constituted enquiry, taken in conjunction with other evidence not necessarily to the same effect, would, of course, be valuable.

We may reasonably conclude, therefore, that neither on the subject of Real Credit (which involves either an acquaintance with technology or the acceptance of certain premises obviously unfamiliar to the persons by whom the Report was drawn up), nor on the subject of Financial Credit, which is a compound of psychology, business procedure, and politics, has the Committee in question the necessary equipment to enable it to offer on its own authority an opinion of any value, on a scheme which depends for its understanding on some familiarity with both of these at the same time. It is nowhere stated that the evidence of any competent witnesses was taken in the manner common to such an enquiry. Even a juristic basis such as might be favoured by a Committee so largely composed of barristers is, therefore, lacking to the Report.

But (again with the exceptions previously noted) the Committee has a further and most important bond of union in its common connection with the Fabian Society and the London School of Economics, both intimately associated with the name of Mr. Sidney Webb, and the latter institution, in addition, a striking though unobtrusive instance of the financial benefactions of, inter alia, the late Sir Ernest Cassel.

The Fabian Society is avowedly a Socialist organisation and its translation of the word Socialism is the substitution of the Supreme State (to which every man must bow, and by whose officials all human activities from the cradle, or before, to the grave, and after, shall be regulated) for individual freedom and initiative. The Fabian Society has been notably successful in intercepting, sterilising and misdirecting intelligent enquiry into the causes of social unrest.

The London School of Economics is an unimpeachably orthodox institution. Its officials are quoted in support of Government economic and financial policy, and its more promising graduates are assured of consideration in the Treasury, the Banks and the more important financial establishments. It is solidly entrenched on a "Banker's" Theory of Banking. In this connection the Hazard Circular, issued in America in 1862, is of interest:

"Slavery is likely to be abolished by the war, the power of chattel slavery destroyed. This I and my European friends are in favour of. For slavery is but the owning of labour and carries with it the care of the labourer, while the modern or European plan is capital control of labour by controlling wages; this can be done by controlling the money. *The great debt which capitalists will see to it is made out of the war must be used as a measure to control the volume of money.* To accomplish this, bonds must be used as a banking basis. It will not do to allow the 'Greenback,' as it is called, to circulate as money for any length of time. We cannot control them. But we can control the bonds, and through them the bank issue."

Another circular issued by the American Bankers' Association in 1877 reads as follows:

"It is advisable to do all in your power to sustain such newspapers, especially in the agricultural and religious Press, as will oppose the issue of greenback paper money, and that *you also withhold patronage or favours from all applicants who are not willing to oppose the Government issue of money.* Let the Government issue the coin and the banks issue the paper money of the country, for then we can better protect each other.

"To repeal the law enacting national bank notes, or *to restore to circulation the Government issue of money, will be to provide the people with money* and therefore seriously affect your individual profits as bankers and lenders."*

The fundamental tenet of the Fabian Socialist is that all purchasing power shall be dispensed by the State at its discretion. The State is an abstraction, just as the American Bankers' Association is an abstraction. Both Mr. Sidney Webb and Hazard mean exactly the same thing—they both want economic slavery, and by complementary mechanisms, and, no doubt, both would explain that they were actuated by the highest motives. Before expanding this aspect of the question, however, in connection with the intention of the Report, it is desirable to consider the time at which it was issued.

III.

(3) THE first meeting of the Committee was held on May 24th, 1921. Subsequently, there were occasional rumours current that its members found some difficulty with their subject. These crystallised into the form of statements that no report would be issued, to which an hysterical outburst in the "New Statesman," advising that course, gave some colour. As is common knowledge, Mr. Sidney Webb is Chairman of the Statesman Publishing Co.

About March of this year 1922, it became evident that a fresh crisis in the Mining Industry was approaching, concurrently with a steady growth of interest in the relation of credit to industrial problems. Mr. Sidney Webb was elected Chairman of the Labour Party Conference, which devoted itself to the devastating pro-

* "Daily Telegraph," July 21st, 1922:—The process of replacing gold with Bank of England notes in the currency note redemption account is continuing, £500,000 of gold having been withdrawn and replaced by the same amount of banknotes for the third week in succession. There was a contraction of £1,021,133 in the combined currency notes and certificates during the week.

blem of Privy Councillorships for Labour Leaders. Discussion of Finance was successfully excluded from that Conference.

Some six days before the Miners' Conference, and consequently too late to permit any criticism of it to affect that body, the Committee issued its unsigned and undated Report. A copy of it was kindly sent to me, and on the same day I noticed a leading article in the "Financial News" something more than a column in length devoted to the discussion of the alternative recommendations of the Report. While giving immediate and effective publicity to the suggested "nationalisation" and "municipalisation" of banking, this article successfully avoided any mention or indication of the Social Credit Proposals.

(4) At this stage, it must occur to the reader to enquire why a Report of this character, prepared by unqualified persons, without the examination of competent witnesses, should be issued at all. The answer is, I think, to be found in the passage previously quoted from the American Bankers' Association Circular: "that you also withhold patronage or favours from all . . . who are not willing. . . ." Let there be no misunderstanding as to what is meant by this. During the late war, there were numbers of highly placed officials both military and civil whose success was only enhanced by the chaos, intrigue and obstruction which seemed to attend their best efforts. Absurd suggestions of treachery and corruption were freely made in connection with these persons—absurd because although their safety and steady promotion were of the greatest consequence to Germany and the International organisations by which she was supported, it was obviously in every way more convenient, cheaper and more effective that they should be paid by the British Public, and if possible be encouraged to imagine themselves to be serving it.

Now every single conclusion to be drawn from this Report taken at its face value is in the interests of the "Financial System" and its high priests. Practically, the Report is devoted to maintaining that the formulae which connect cost and price in the present financial system are the formulae which should give the best results. That is very satisfactory for High Finance. Also, that any little defects which may be noticed from time to time in the system, are due to wicked employers making undue profits. That is also satisfactory, because it keeps alive a bitter controversy between employers (from the large railway to the small tradesman) and employed, throws the employers into the arms of Finance for protection against the employed, and keeps both of them too busy to have time to get at the facts. Thirdly, it goes out of its way to state that whether sound or not, a scheme which would give the worker higher wages, cheaper living, real control of both policy and conditions, and an incomparably wider outlook on life, and these both at once and progressively, " is fundamentally opposed to the principles for which the Labour Party stands " because these results would be achieved " without freeing themselves from the annual tribute payable to the other shareholders." That is admirable. It puts forward the legitimate aspirations of the body of men and women it claims to represent in such a light as cannot fail to antagonise a much larger number of persons than it attracts. Every widow with a War Pension, every Old Age Pensioner, the hundreds of thousands of small shareholders in railway companies, will know exactly what to expect when Labour comes into power. Is it any wonder that, for instance, Sir Herbert Morgan declares in public that there is no reason to fear a Labour Government. See what a lot of money it would save. And it offers such an attractive programme to the general public as an inducement to put it into power.

Finally, the Report makes its own recommendations. It burks enquiry into questions of prices, which are common ground to the whole community, and attacks the " Big Five " Banks with an open threat of expropriation, but without the slightest indication of a plan of campaign. To a public just emerging from an orgy of bureaucratic tyranny, it offers a vision of a world consisting of Post Offices, and a population whose daily activities would be modelled on those of that institution, as a bait for its sympathy in what would be the greatest fight of all the ages—if it ever came off.

Ten years ago, a policy of banking " nationalisation " might have caused some anxiety in Lombard Street; to-day the " Financial News " very properly gives it the widest publicity in its power.

The Report has some words of commendation, to " the authors of the Douglas-New Age Credit Scheme" for "drawing attention to the importance of Credit and Banking in the Economic System." I am encouraged by this kindly praise to hope for some further success in indicating, however briefly, the mechanism by which the millions of workers and others (whose power if effectively used would be ample to attain their real desires) are continuously misrepresented and stultified. An understanding of this process will, it is reasonable to hope, discourage the appointment and accrediting of Committees unfitted to deal with matters of public interest, or, at any rate, to enable their conclusions to be assessed at their proper value.

APPENDIX I.

If an attack were levelled at a treatise on the game of cricket on the grounds that the author's theory did not conform to generally accepted views on stool-ball, it would be necessary to stress some general differences between the games, if for any reason an answer to such criticism were deemed to be desirable.

To the extent that the Report is a reasoned, as distinct from a propagandist, document, it is a defence of the existing banking and financial system, and may reasonably be assumed to proceed from Mr. J. A. Hobson and Mr. Hugh Dalton ("Sir Ernest Cassel" Reader in Commerce, London School of Economics), with the assistance of the anonymous but experienced banking official. It will be understood that such a defence may be perfectly sincere—it is certain that every form of influence would be exerted to further the appointment of sincere advocates of such views. It is necessary to emphasise this point in order to make it clear that the official Labour Party has no fundamental difference of opinion with the existing financial system—it merely claims that its motives, intelligence and general equipment qualify it to work the same system better than the existing administrators, a point of view on which, no doubt, the public will form its own opinion. It becomes of interest, therefore, to gain a clear idea of the premises from which these critics proceed, and to isolate the vital fact that it is in these premises themselves and not alone in the deductions made from them that the Social Credit Movement (and, it is believed the best interest of nine-tenths of the populations of every country, whether they be rich or poor) is in sharp opposition to the official Labour Party and High Finance jointly.

These premises, from which this Report, accepted by the Labour Party, proceed are :—

(1) That financial credit is a concrete thing conditioned by limitations inherent in itself. (This idea is implied in the glaring and persistent misuse of the word "Capital" where financial credit or resources are indicated.) Page 6, page 7, etc.

(2) That banks and bankers cannot and do not create financial credit. (Mr. Gregory, "Sir Ernest Cassel," Reader in Economics, London School of Economics, has twice, at least, made this statement in public.)

(3) That the right and only possible expression for price level, $P^{av.}$,

is $P^{av.} = \dfrac{\text{Effective demand}}{\text{Existing goods,}}$ i.e., the price of an article is what it will fetch.

(4) That the objective of the industrial system is employment.

From these premises proceed the objective facts that Germany cannot be made to pay without ruining her creditors; that America, while determined to collect her debt from us, imposes a tariff which is especially designed to prevent collection; that only a coal strike in the United States, i.e., restriction of output, has prevented the bankruptcy of the Welsh coal trade, and many other sufficiently remarkable phenomena which the Committee find it convenient to ignore.

The premises of the Social Credit Movement are :—

(1) That financial credit is a mere device, which can have no economic significance apart from real credit, i.e., the correct estimate of the ability to deliver goods and services as whe and where required.

(2) That banks and bankers can and do creat financial credit, and by successful manipula-

tion appropriate the power resident in the real credit of the community for purposes largely anti-social, as well as purely selfish.

(3) That the right, i.e., practically satisfactory, expression for price level should be

$$P^{av.} = \text{Cost} \times \frac{\text{Rate of consumption} =}{\text{Potential rate of supply} =}$$

$$\text{Cost} \times \frac{\text{depreciation}}{\text{goods produced} + \text{real credit produced},}$$

i.e., the price of an article should be that which will get it produced and delivered in the maximum quantity desired.

(4) That the objective of the industrial system should be the delivery of goods and services to the orders of individual consumers. It should not be employment, nor is it a common aspiration of the community that it should be designed to place any individuals whatever, either High Financiers or members of the Labour Party Executive (however great their moral and intellectual qualifications may be), in a position to arbitrate on what is or is not useful work, and to withhold a share in economic prosperity from "non-workers," as thus arbitrarily defined.

To accommodate slightly the language of the Report, I do not feel called upon to defend these latter premises, but it is necessary to draw attention to the differences of outlook which exist.

Page 3, line 25: "That part of the factory's *receipts*, which is distributed in wages, salaries and dividends." Receipts are prices; dividends are paid out of them. Wages and salaries are costs, together with profits. They are not paid out of receipts; but, antecedently, out of credit. The quoted words are attributed to me. It is, perhaps, unnecessary to repudiate them.

Page 3, line 27 : "The rest of the money which is distributed in payments for plant, etc., simply goes, in his view, to pay off advances which have already been made by a bank to the manufacturer for the purchase of these articles," seems to me quite without meaning. A manufacturer of plant does not purchase it—he manufactures it.

The above two quotations are the basis of a statement (page 3, line 35) : "We think this description is fallacious in several respects." Agreed. It is an unintelligible and misleading paraphrase of the theory to which it is stated to refer.

Page 3, line 42 : "Further, all payments—wages, interest, salaries and everything else—*eventually* go to individuals." Wages and salaries came out of credit, and *originally* went to individuals, and *eventually*, together with profits, are recovered in prices out of which dividends are paid. (My italics.)

Page 4, 2nd paragraph.—It is difficult to criticise this paragraph. The words : "Major Douglas . . . does not seem to appreciate . . . that (as a rule) new purchasing power is paid out in respect of to-morrow's production just as much as to-day's," when taken in conjunction with the objective fact that if you throw a man out of work this week he cannot buy next week's production, seem to me to make it so obvious that the public is spending the *money* this week which it ought to be able to spend next week; or, in other words, that it takes, e.g., two weeks' income to buy one week's goods, that I am surprised that whoever included those words did not realise their implication. The remainder of the paragraph is a criticism of something I have never said.

The following paragraph is remarkable (page 4, line 22). It amounts to a statement that export credit and loan credit are not purchasing power. The authors of the Trade Facilities Bill (1921-2) will kindly note.

PAGE 4, final para. :

" There is no warrant for the assumption that the cost of production and therefore the selling price is swollen by the amount of capital employed in production, whether or not some part of this capital is provided by a short loan from a bank. Capital employed in production lasts normally for more than the making of one product. . . ."

This paragraph seems singularly incompetent. In the first place, it confuses the credit which is employed to induce the production of capital goods with the capital goods themselves. As it is the contention of Mr. Hobson that financial credits. *i.e.*, bank deposits, are " savings," and as the plant presumably indicated in the words " Capital employed in production," etc., clearly came into existence *after* the credit (bank loan) which induced its production, it is to be hoped that he dissociates himself from this portion of the Report.

Further, if a " short " loan financed this capital production then, " shortly," it was repaid. The bank wrote off the transaction by means of money paid by the manufacturer, either out of a fresh credit or out of money obtained from the public. In the latter case, the public paid for the plant, but did not get delivery; in the former case the plant could not be paid for out of wages, salaries or dividends, so was paid for out of credit. In neither case, apart from the *creation* of bank credits, does there exist purchasing power extant in the community to liquidate the charge, either as to capital or interest, which has been put upon the plant financed in the manner indicated.

Page 5: Two misconceptions are apparent in the arguments adduced on this page. The first and less important, is the failure to realise that depreciation and maintenance, obsolescence, etc., are *added into* prices, and *written off* profits. Dividends come out of profits, consequently, are smaller than the profit item in prices and cannot liquidate it. The more important is that while " Charges for depreciation and renewal of capital must always be paid " (line 27), this can only be done if purchasing power is distributed to those who are asked to pay *depreciation,* in respect of *appreciation*—a subject on which the Report is wholly and discreetly silent.

On page 6 a table is given purporting to show the trend of nominal wages, prices and real wages at various periods. In common with other statistics produced, this table only shows that real wages bear no valid relation to real productive capacity, but a functional relation to the manipulation of the financial system during war periods, etc.

The remainder of this page is simply an argument from premises which it is believed are sufficiently invalidated by the foregoing portion of this Appendix.

Page 7. This is not responsible criticism, and it is perhaps only fair to assume it to be wholly propagandist in intention. It attacks authoritative price-fixing. Authoritative price-fixing is specifically denounced as both undesirable and impracticable in both "Economic Democracy " and " Credit Power and Democracy," and the suggestions advanced in those books are expressly designed to avoid it. It goes on from its own false premise to say that the Scheme (which makes an issue of national credit *dependent* on an improved relationship between supply and demand) would bring back " the worst experiences of the war-soaring prices, inadequate supplies, queues and the rest of it—only very much more so." I feel sure that I shall be excused from an expression of opinion on this.

" The Producers' Bank. Major Douglas lays much stress on his proposal that a new banking company should be established for each industry, preferably by the Trades Unions concerned." I am inclined to admit that the Committee appointed by the Central Executive of the Labour Party are right in attacking this feature of one specific Scheme (that for the Mining Industry)—a feature, it is necessary to emphasise, which is in no way fundamental to the general principles involved. When this Scheme was drafted, I was inclined to believe that Labour organisations formed a useful method of obtaining for the individuals who were included in them those things which I believe they want, have a practical right to, and can get. That idea, though more true four years ago than now, may even then have been unduly optimistic. It depends for its validity on the assumption that a Trades Union has real credit, i.e., it is a factor in a correct estimate of the capacity of the community to deliver goods and services as when and where required. If it has real credit, financial credit can be attached to that real credit. The Report is at some considerable pains to show that the Miners' Labour organisation has no credit. This means that it is a negligible factor in the situation, as operated at present; and as the Committee is acting for it, I must defer to its superior knowledge on this matter. It reads curiously as from a "Labour" Committee, however.

The remainder of the criticisms on the Producers' Bank as such all arise quite clearly from an obsession regarding the fundamental reality of "money," and the comparative unimportance of goods and services. It is the tickets that matter, not the train service and the seating accommodation, to the Committee. I would suggest to those concerned, a short audience of the Departmental controversy between any Operating Department and any Traffic Department on any railway at any time, for illumination.

There is also an instructional paragraph on Clearing Houses. The object of making such a bank as was proposed a member of, *e.g.*, the London Clearing House, was to enhance the "viability" of its cheques, *i.e.*, to ensure that they should be exchanged freely for cheques of other banks. It had nothing whatever to do with the bank's solvency. Incidentally this paragraph is misleading in suggesting that clearing houses "do nothing to increase the amount of *money* at the bank's disposal" (page 8, line 48). If *credit* is meant by this, it is true; if legal tender is meant, it is palpably untrue. It is lack of legal tender which the Committee stress.

The criticism of the staff required to run such a business may charitably be ascribed to ignorance of commercial procedure in the payment of wages, etc., at present. By combining the credit-keeping and the wage-paying organisation in one, not only would a considerable saving of labour (!) ensue, but the practical inconvenience of "pay-day" to everyone concerned would be eliminated.

. . . . . .

It is believed that all the specific criticisms contained in Report are considered in the foregoing paragraphs. The general implication of the Report has already received attention; and the counter proposals of the Committee will no doubt be judged on their merits.

Perhaps fortunately, the moving drama of events seems likely to establish their relative importance.

APPENDIX II.

I.

34, Eccleston Square, S.W.1
May 24, 1921.

Dear Sir,—At its first meeting to-day the Committee set up to inquire into the Douglas Credit Scheme asked me to invite you to attend its next meeting, to be held on Wednesday, June 1, at 4.30 p.m., in order to discuss the Scheme. The members of the Committee have read "Economic Democracy" and "Credit-Power and Democracy," and they leave you to decide whether you think it desirable to submit any memorandum for the consideration of the Committee.

Yours faithfully,
(Signed) ARTHUR GREENWOOD,
Secretary.

II.

38, Cursitor Street, E.C.4.
May 26, 1921.

Dear Sir,—We are obliged by your letter of the 24th inst. and note that a Committee has been set up to inquire into what is generally known as the Douglas-NEW AGE Scheme.

This Scheme has two quite distinct aspects: one is social, and is concerned with the results of putting it into operation; and the second is technical, and is concerned with its feasibility, and the theory on which it is based.

Before accepting the invitation contained in your letter, we should be glad to learn from you:

(a) Which of these is the subject of your inquiry.

(b) The full personnel of the Committee. In any event, we regret that the short notice of your meeting makes it impossible for us to be present on the date you mention, as we have a prior engagement.

Yours faithfully,

C. H. Douglas,
A. R. Orage.

III.

34, Eccleston Square, S.W.1.
May 27, 1921.

Dear Sir,—Thank you for your letter of the 26th inst. The Committee which has been set up is concerned with both the theoretical and practical side of the Scheme.

The members of the Committee are as follows: C. D. Burns, F. C. Clegg, G. D. H. Cole, H. Dalton, A. Greenwood, J. A. Hobson, F. Hodges, C. M. Lloyd, Sir Leo C. Money, R. H. Tawney, S. Webb.

I regret that you are unable to attend the next meeting of the Committee, but I hope that it may be possible to arrange a later date which will be convenient.

Yours faithfully,

Arthur Greenwood,
Secretary.

IV.

38, Cursitor Street, E.C.4.
May 28, 1921.

Dear Sir,—We are obliged by the receipt of your letter of the 27th inst.

You will agree that the value of a pronouncement of such a Committee as is contemplated by your terms of reference, in connection with a Scheme which admittedly has far-reaching implications, is dependent to a large extent on its composition.

Without in the least questioning the qualifications of the gentlemen whose names are covered by your letter, to pronounce on the social aspects of the Scheme if put into operation, it will not, we suppose, be contended that, with the exception of Mr. Hodges, they have, any of them :

(a) Any direct knowledge of coal-mining, the exemplary case to which the Draft Scheme applies.

(b) Any experience either of the concrete problems of business management, or of the operations of practical finance.

Further, a number of the members of your Committee, as at present constituted, are, by their pronouncements on the Labour Committee on High Prices, already pledged to the support of economic dogmas which are expressly challenged by the theory of the Scheme.

At least three members have publicly pronounced against it, and at least two members are prominently associated with the propaganda of schemes of social reform which contemplate dealing with industry by the elimination of any non-active beneficiaries, without reference to its decreasing requirements in respect of active labour.

Under these circumstances we feel sure that you will agree that your Committee, as at present constituted, would suggest to an unprejudiced observer a strong tendency to take, as in the case of the Committee on High Prices, certain orthodox financial propositions as manifestations of natural law; a position only contestable to persons familiar with their origins.

As we agree most unreservedly that an investigation by a suitable Committee of a Scheme claiming to offer a solution of the present difficulties is in the highest degree desirable, we would suggest the formation of such a Committee on the following lines:

(1) The Committee to consist of twelve members, six to be nominated by ourselves, and six by the Labour Party.

(2) It shall be an indispensable qualification for membership of such a Committee that they shall have been, within the last five years, actively engaged in some branch of productive industry or the administration of it; and shall not be publicly committed to any specific scheme of social or industrial reform.

(3) The officials of such Committee shall be elected by the Committee.

In the event of such a Committee being constituted, we shall be entirely at its disposal for the most complete investigation of both the practical and theoretical aspects of the Scheme.

Yours faithfully,

C. H. Douglas.
A. R. Orage.

V.

34, Eccleston Square, S.W.1.
June 3, 1921.

Dear Sir,—I am in receipt of your letter of the 28th ult., from which I understand that you are not prepared to give evidence before my Committee as at present constituted.

In these circumstances the Committee must rely upon the various published statements relating to the New Age-Douglas Credit Scheme.

Yours faithfully,

Arthur Greenwood,
Secretary.

VI.

34, Eccleston Square, S.W.1.
June 3, 1921.

Dear Sir,—Mr. Greenwood has handed me your letter of May 28, in which you take exception to the personnel of the Committee which is inquiring into the NEW AGE-Douglas Credit Scheme, and suggest the formation of a new committee.

As regards the first point, I wish to say that the Executive Committee of the Labour Party has the fullest confidence in the Committee which it has appointed.

Your second point, referring to the establishment of a joint committee of inquiry, is one which my Committee could not accept. The Executive Committee of the Labour Party claims the right to carry on its work in its own way; and, in any case, it could not be expected to approve the appointment of a Committee the Labour members of which "shall not be publicly committed to any specific scheme of social or industrial reform," whilst the members nominated by you would be definitely committed to the scheme under consideration. It is, moreover, obvious that the condition you attach would rule out from membership every member of the Labour Party. The second qualification—that members "shall have been, within the last five years, actively engaged in some branch of productive industry or the administration of it" would exclude economists, whose existence is essential in dealing with the theoretical basis of your scheme.

Yours faithfully,

ARTHUR HENDERSON.

VII.

38, Cursitor Street, E.C.4.
June, 4, 1921.

Dear Sir,—We are obliged by the receipt of your letter of the 3rd inst.

If you will kindly refer again to our letter of the 28th ult., addressed to Mr. Greenwood, you will see that we did not suggest that the members of the joint committee to be nominated by ourselves should be any more "committed to the scheme under consideration" than the members to be nominated by the Labour Party. The same qualifications were to apply to all the members of the Committee, however nominated. On the other hand, in view of the desirability of an impartial inquiry, we equally suggested that, if none of the members of the Committee should be committed one way or another regarding the scheme, neither should they be committed to any scheme specifically antagonistic to it.

Regarding the co-operation of professional economists in the Inquiry, while their evidence as witnesses might be valuable and we should welcome its inclusion, their title to act as judges is not, we think, admissible. This is much rather the function of such a Committee as we have proposed, consisting of men without theoretical commitments, and with practical knowledge of both the problem to be solved and the actual means available for solving it.

We do not think it is necessary to stress the increasing gravity of the social and industrial situation in asking your assistance to the end that the suggested Inquiry shall, if held, give due weight to the facts, and consideration to the proposals submitted to it, without reference to any other than the public interest, and, as far as possible, shall be representative of that interest, rather than of any one section of it.

Yours faithfully,

C. H. DOUGLAS,
A. R. ORAGE.

Draft Scheme for the Mining Industry.

I.

(1) For the purpose of efficient operation each geological mining area shall be considered as autonomous administratively.

(2) In each of these areas a branch of a Bank, to be formed by the M.F.G.B., shall be established, hereinafter referred to as the Producers' Bank. The Government shall recognise this Bank as an integral part of the mining industry regarded as a producer of wealth, and representing its credit. It shall ensure its affiliation with the Clearing House.

(3) The shareholders of the Bank shall consist of all persons engaged in the Mining Industry, ex-officio, whose accounts are kept by the Bank. Each shareholder shall be entitled to one vote at a shareholders' meeting.

(4) The Bank as such shall pay no dividend.

(5) All the capital invested in the Mining properties and plant shall be entitled to a fixed return of 6 per cent., and, together with all fresh capital, shall carry with it the ordinary privileges of capital administration other than price fixing, which shall be entirely separated from production.

(6) The Boards of Directors shall make all payments of wages and salaries direct to the Producers' Bank in bulk.

(7) In the case of a reduction in cost of working one-half of such reduction shall be dealt with in the National Credit account hereinafter referred to, one-quarter shall be credited to the Colliery owners, and one-quarter to the Producers' Bank.

(8) From the setting to work of the Producers' Bank all subsequent expenditure on capital account shall be

financed jointly by the owners and the Producers' Bank, in the ratio which the total dividends bear to the total wages and salaries.

II.

(i) The Government shall require from the Colliery owners a quarterly statement properly kept and audited of the cost of production, including all dividends and bonuses.

(2) On the basis of this ascertained cost, the Government shall by statute fix the price of coal to the Home consumer of coal for purposes of heating as distinct from use in manufacture, at a percentage of the ascertained cost.

(3) This percentage shall bear the same ratio to one hundred as the total home consumption of all descriptions of commodities does to the total National Production, i.e. :

As Price : cost : : consumption : production

⁂ Price = Cost per ton ×

$$\frac{\text{cost value of total consumption and depreciation.}}{\text{cost value of total production.}}$$

(4) The Government shall reimburse to the Colliery Proprietors the difference between total cost and total price by means of Treasury Notes, such notes being issued, as now, against the National Credit.

(5) The price of coal for export would be fixed at such a day-to-day price as would serve the general interest. All exported coal would be regarded as consumption.

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