THE COMMUNITY'S CREDIT

By

C. MARSHALL HATTERSLEY

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A CONSIDERATION
OF THE PRINCIPLES
AND PROPOSALS OF
THE SOCIAL CREDIT
MOVEMENT

By

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1922

PUBLISHED BY "CREDIT POWER" PRESS,
70 High Holborn, London, W.C. 1.

PRINTED BY ED. J. BURROW & Co., Ltd.,
London and Cheltenham.

Introductory.

Events to-day are moving far faster than ideas, and while governments and their expert advisers are seeking a cure for the economic malady along old, discredited lines, the governed are finding scant comfort in the out-worn formulæ of past decades and the platitudes of present-day politicians. And in the meantime the condition of modern industrial civilisation grows daily more serious. The present situation needs fresh analysis, and for its betterment, a new remedy.

In the spring of the year 1920 there appeared the former of two remarkable books by Major C. H. Douglas. In "Economic Democracy," and later (assisted by Mr. A. R. Orage, late editor of "The New Age"), in "Credit-Power and Democracy" also, Major Douglas has undertaken a new and fundamental analysis of the industrial situation, and has pointed out the principles upon which any permanent solution of the present economic difficulties must be sought. The Social Credit Movement has arisen as a direct result of these two books, in order to study and develop the principles formulated therein, and to discover ways and means of carrying them into effect. But the movement offers something more than a bare economic framework. It holds out an ideal, and it shews how that ideal can be attained. Therefore the social creditor feels he has something to work for—something well worth working for. He has gained a new outlook on life, an outlook full of hope. He knows that he is in possession of a very great truth, and that it is "up to him" to pass it on.

The following pages contain the gist of a series of papers delivered to the Swinton (Yorks) Group of the Social Credit Movement during the latter part of 1921 and the Spring of 1922. They were first written in an endeavour to "bottom" some of Major Douglas's rather startling and certainly unorthodox contentions, and to become satisfied as to the accuracy or otherwise of his conclusions. They are here submitted with a deep consciousness of their many limitations, but also in the hope that they may be found of some assistance towards the better understanding of a vital subject.

C. M. H.

Swinton, Rotherham.
December, 1922.

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that which menaces the peace and prosperity, if not the very existence, of his own country. Gigantic contradictions such as these seem to point to something more than a temporary hitch in the working of the world's economic machinery.

Orthodox Advice Were it not so tragic, it would be almost ludicrous to see the appalling helplessness of our recognised leaders of Commerce, of Labour, and of Finance, in the face of the breakdown of the wonderful economic machine that has developed almost beyond recognition during the past century of industry. Of such orthodox economists, the majority stand aghast, and would seem to await a miracle. Others appear to find consolation in the thought that wars have often, if not always, been followed by periods of acute trade depression and economic distress, and profess to look upon present conditions as merely a severe manifestation of a more or less necessary evil,—like, for instance, measles. Strange to say, they find this a good and sufficient reason for patient endurance, rather than active search for a remedy, forgetting that even measles occasionally proves fatal. The only advice they have to offer (when docked of its surplusage) seems to reduce to this: "Produce more; Consume less; Export the surplus." Produce more—and add to the already enormous accumulation of unsaleable stocks. Consume less—a difficult doctrine to preach to those already unable to afford the bare necessities of life. Export the surplus—where ?

The Struggle for Foreign Markets.

" With the present condition of restricted and reduced markets, and the re-entry of Germany and other countries into the field of production, we have to face a great and increasing competition. Indeed, this is already beginning to make itself felt " (b). Japan, and perhaps more particularly the U.S.A., under the stress of economic conditions similar to our own, are even now trying, not only to prevent Great Britain from acquiring fresh markets, but, further, to oust her from the markets she already holds. Here is a condition of affairs pregnant with international friction, and, disguise it as we may, there exists at the present time a somewhat strained relationship between our American cousins and ourselves that no amount of verbal camouflage will be able to hide indefinitely, nor wilful blindness disregard,—and which may, as the economic struggle for the world's markets grows increasingly acute, develop into something more than cousinly bickering. (c).

(b) Mr. F. C. Goodenough, Chairman of Barclay's Bank, speaking on January 26th, 1921.

(c) It is not disputed that the recent Conference at Washington achieved a political triumph, and that it has perhaps done something to remove the likelihood of another Great War in the immediate future. But armament agreements, however beneficial they may appear, and however genuine may be the desire to avert war, leave untouched the prime economic cause thereof. As to which see Chapter III' *infra*, at page 52.

Present Conditions accelerated by the War. The history of the past century records frequent hitches in the smooth working of the world's economic machinery; and as industry gradually approached to its present state of development, these hitches became more frequent, and increasingly serious. It is sometimes forgotten by those who blame the European War of 1914-1918 (at present popularly known as "The Great War") for the prevailing economic conditions, that before and up to the outbreak of that war there was, and had been for the past twenty years at least, a constant rise in the general level of prices; that there was at the same time a steady increase in the number of unemployed; and that there was an ever-increasing state of friction in foreign markets, of which the logical culmination was the War itself. Indeed, it would appear no exaggeration to say that the War has merely accelerated the process, and that economically we have reached a state of affairs to-day that, had it been possible to avert the war, we should probably have attained some twenty or thirty years hence.

Owen, Marx, Douglas. Inherent defects in the modern economic system have been proclaimed from time to time by thinking men. Unhappily these have not always been correct in their diagnosis of the evil. Robert Owen and the co-operators concluded that the middleman was responsible, and established co-opertive factories and stores with the set purpose of excluding the middleman and his profit. Karl Marx, whose influence on Labour thought to-day it would be hard to exaggerate, taught, in effect, that the Capitalist was and is the hereditary enemy of the Worker ; he laid his stress on the appropriation of profits by the employer. Major Douglas (d) carries the analysis deeper, and, behind both the Middleman and the Employer, he perceives in the Financier and his system the basic cause of the economic difficulties of our modern industrial civilisation.

Assumptions of the Orthodox Economist. The orthodox economist, wherever his private sympathies may lie, or even if he approaches the subject with an unbiassed mind, tacitly accepts, wholly or in part, the following premises from which to draw his conclusions (e) :—

(1) That the only source of a community's wealth is its output.

(2) That it is only possible to make the poor richer by making the rich poorer.

(3) That Great Britain is now a poor country, whose one need is economy.

(4) That external trade is indispensable to the proper distribution of goods at home.

(5) That the price of goods to the consumer

(d) In his books "Economic Democracy" and "Credit-Power and Democracy."

(e) See "Notes of the Week" in "The New Age" for 3rd February, 1921.

can never be less than the financial cost of production.

(6) That work is the only title to a share in the goods and services of the community.

(7) That industry exists, not solely for the production and distribution of goods, but also to provide employment.

Let us, however, take the above assumptions for detailed consideration.

That the only Source of Wealth is Output.

(1) *That the only source of a community's wealth is its output.* This assumption entirely loses sight of another great source of communal real wealth, namely, capacity to produce. Two men, we will suppose, are at work in a coal-mine. A. is hewing coal; B. is opening a gallery to the coal-face. A. is thus increasing the output of the mine; B. is increasing, not the actual output, but the capacity of the mine to produce. The real wealth of the community is enhanced not only by A.'s work, but also by B.'s. So that, just as financial wealth is of two kinds, currency and credit, the real wealth of a community is also of two kinds, products, and the capacity to produce.

That the Wealth of a Community is Limited.

(2) *That it is only possible to make the poor richer by making the rich poorer.* This proposition implies that the wealth of a community is limited, and follows naturally

from a failure to realise that the real wealth of a community does not consist of money—money is only a machinery for the distribution of real wealth—but consists of goods, and the capacity to provide goods. When it is realised how every new factory erected, every new invention made, every fresh scientific discovery achieved, and every ton of coal raised increase this capacity, one is bound to conclude that the real wealth of a community is practically limitless. That being so, a proper utilisation of our resources would result in the standard of living of the poorer classes being infinitely bettered, without the abstraction of one jot or one tittle from the possessions of the rich.

That Great Britain is now a poor Country.

(3) *That Great Britain is now a poor country whose one need is Economy.* The truth of the matter is that, measured by goods in stock plus capacity to produce more goods when, where, and as required, England's real wealth is greater than ever before. During the War her industrial machine was keyed up to concert pitch, and her capacity to supply the needs of mankind is now far in excess of what it was in pre-war days. "The first thing to remember is that the old "explanation of our poverty and commercial "impotence will not stand investigation. According to this view, we are poor and economically

" unhappy because we spent so much in the " war, i.e., destroyed so much property of all " kinds, and dissipated so much Capital. The " analogy of the private individual is used to " shew that we must expect to be poor. . . . " That analogy sounds well enough, but in fact " it is almost wholly fallacious. This country, " and indeed the world in general, has not been " impoverished by the War at all in the way " the ordinary man is impoverished. We, and " most of the other countries of the world, are " in essentials as rich as we were before 1914. " It is true that by loans and taxation we have " altered the distribution of property in a manner " which if it had been done in a different way " would have been called revolutionary, but " that does not mean a diminution of total " wealth. . . . There are no great industries " that have been destroyed by the War,—our " coal-pits, our cotton-trade, our ship-building " yards, and all our industries, from iron furnaces " to woollen mills, are there ready to be worked. " . . . We have not even got a demoralised " population. Take it altogether, the War was " a stimulus, and there are more people at this " moment ready and eager, if they can see how, " to make a profit and increase the wealth of the " world than there were ever before "(f). Are these the characteristics of a poor country ?

(f) The Spectator, October 15th, 1921.

That Export is Essential

(4) *That export trade is essential for the proper distribution of goods at home.* By this time we are so accustomed to the cry, "We must export more," that we scarcely pause to ask ourselves the reason why. It is, of course, obvious, that if Great Britain is to import (e.g.) wheat from abroad, she must sooner or later export an equivalent value of home-products in exchange. But what each and every industrial country is striving after to-day is to obtain a so-called "favourable balance of trade," that is, not so much to exchange superfluous for needed commodities, as to acquire, by exporting greater value than it imports, an income from outside sources. Douglas shews how this is a necessary result of the prevailing economic system. We shall examine his arguments a little later (g), but for the present will only remark that this necessity is accepted as a fact on all sides, and that the condition of world affairs to-day does indeed afford weighty circumstantial corroboration. But (and here lies the danger), if it is an economic necessity for Great Britain to export goods and services to a greater value than she imports, it is also an economic necessity for America, for Japan, for Italy, and for Germany. International friction is, humanly speaking, unavoidable. A very disquieting doctrine this, and one which, if true, points to some radical defect in the world's economic system.

(g) Chapter III, *infra.*

That Goods cannot be sold "under cost." (5) *That the price of goods to the consumer can never be less than the financial cost of production.* In other words, that if a manufacturer pays out £1,000 for raw materials and £1,000 in wages, salaries and overhead charges, the price of the finished product to the public can never, economically, be less than £2,000 and may very well be considerably more. Under the present financial and economic system this is certainly the case. The selling-off by a manufacturer of his accumulated stocks at less than production-cost is, of course, no more than a temporary expedient, the loss incurred on which will be recovered in enhanced prices at the earliest opportunity. Indeed, so accustomed are we to regard this assumption as axiomatic that it sounds strange at first to suggest that it is not necessarily true under every possible economic system. And yet it would not necessarily be the case if, for instance, the financial system of an industrial community were deliberately based on the real credit of that community, and the present so-called gold basis were for ever discarded as obsolete. As an illustration of what we mean by this, let us assume that in a given unit of time the gross increase in the real credit of a community (by which we mean not only the output of finished products, but also development in the capacity of the community to produce) to be of the value of £1,000,000. If the simultaneous gross decrease in the community's real credit (in which we include not only consumption of goods but also depreciation and the scrapping of obsolete plant) be of the value of £800,000, it is clear that within that given unit of time there has been a nett appreciation in the real credit of the community of the value of £200,000. This nett increase in the community's real credit would, under such a system, form an effective backing to a Treasury Issue of new financial credit to an amount not in excess of £200,000. If, now, we suppose that the price of goods within the community were to be regulated at, say, $^4/_5$ of their production-cost, then, when the goods that had cost £800,000 to produce had been sold, the manufacturers would be out of pocket to the tune of £160,000, and this sum could be reimbursed to them by means of the Treasury Issue of new financial credit just mentioned. This, however, is a somewhat intricate matter, with which we shall deal in detail later (h). For the present it is sufficient to note that whereas under the present system the price of goods to the consumer cannot economically be less than the cost of production, it is not theoretically impossible or absurd to conceive a system wherein this does not hold true.

That "Work" is the only title to Goods and Services.

Our last two assumptions may very conveniently be considered together. They are (6) *That "work" is the only title*

(h) *Infra,* pages 60, 61 and 62, and Chapter VI.

That Industry exists, not only to Produce and Distribute Goods, but also to provide Employment.

to a share in the goods and services of the community, and (7) *That industry exists not only to produce and distribute goods, but also to provide employment.* Industry has two aspects. Primarily, of course, the purpose of industry is the satisfaction of man's material wants by the production of goods; and, under the present system, industry is also the medium for distributing, in wages, salaries and dividends, the money that entitles its possessor to share in those goods. In the former capacity industry functions admirably; in the latter it is a failure. Nor is the reason far to seek.

Science and the Present System.

Scientists are ever busy designing new machinery and discovering fresh processes to replace manual labour by that of machines. Solar energy is being harnessed for the service of man, with the ultimate object of supplying his temporal needs with the minimum expenditure of human energy, or time-work units. In other words, invention and science are daily striving to remove the burden of production from off the shoulders of man and to throw it on to machinery, to the relief and release of mankind for leisure, culture, and recreation. All of which admirable object the present economic system is as busily thwarting. At the present day the great majority of our population depends for its daily bread upon employment. Employment is limited by the public demand for goods and services. Scientific progress and the erection of great quantities of efficient producing machinery has placed industry in a position to meet any possible public demand without the employment of more than a fraction of the human-labour-power available. There is no longer room in industry for all who seek employment there. Instead, however, of releasing men for the pursuit of knowledge, discovery or leisure, science is to-day, in effect, casting them out to starvation or "doles."

Two Conflicting Principles. Here we see two conflicting principles at work. The principle of progress would harness machines to the service of man. The principle that "work" is the only title to a share in the produce of industry harnesses men to the service of machines. In long-ago days it was laid down by St. Paul, writing to the Thessalonians (i) "that if a man would not work, neither should he eat." Admirable as this doctrine may have been before the industrial revolution, nowadays, when abstracted from its context and suitably interpreted, it has become the unwitting cause of much unnecessary misery.

(I) 2. Thess. 3. 10.

If we lived under a sane economic system we should rejoice that we could produce all we required or desired without employing all the man-power available. There would be no "unemployment problem," and no hungry, ragged army demanding "work" as a means to existence, when there is clothing and food enough for all, but not sufficient employment to go round. Present-day conditions afford a direct incentive to adopt a policy of ca' canny, while "making work" has developed into one of the fine arts. And yet there can be no intrinsic good in taking ten hours to produce by hand what can be turned out in ten minutes by a machine. The fact that one man can now do the work of sixty ought not to result in reducing a considerable proportion of the world's population to a condition of semi-starvation and servility. The saving effected by means of new inventions and processes should enure to the benefit of the whole community (j). *We shall never even begin to solve the great Industrial Problem until we have realised that the true purpose of Industry, first, last, and all the time, is the production and distribution of goods and services, and not the provision of employment. And, as a corollary, we must cease to regard "work" as the only title to a share in the goods and services of the community.*

(j) See also *infra*, Chapter VII.

To Sum Up. Let us sum up. The present-day economic system has palpably broken down. Orthodox economists are at a loss to find any adequate solution for the besetting problems of to-day, because they base their arguments upon false premises. What we have so far attempted to shew is this :—

Amended Assumptions. (1) *That the wealth of a community consists not only of its output, but also of its capacity to produce.*

(2) *That it is not necessary to make the Rich poorer in order to make the Poor richer.*

(3) *That Great Britain is not a poor country.*

(4) a. *That a favourable balance of trade is generally considered absolutely necessary for the proper distribution of goods at home.*

b. *That this implies a struggle for foreign markets, and a continuance of economic wars.*

(5) a. *That under the present system it is not economically feasible for commodities to be sold to the consumer at a price less than the financial cost of production.*

b. *That it is not, however, inherently impossible to devise some system under which this would not be the case.*

(6) *That "work" is no longer the only title to a share in the goods and services of the community.*

(7) *That the true purpose of industry is the production and distribution of goods, and not necessarily the provision of employment.*

CHAPTER II.

Credit and Credit-Power.

Introductory. It will be utterly impossible even to begin to understand the causes of the present-day economic impasse unless first of all we grasp the two salient facts about our modern financial system, namely, the immense power of the banks to issue credits—the life-blood of an industrial community—and the effect of such issues upon prices and policy.

The Conception of Credit. If, to begin with, we consider what is meant by Credit, we mark at the outset that credit is, as indeed its name implies, something based on belief: belief in the capacity of the person credited to accomplish something. A Bank, for instance, only allows a tradesman to overdraw, or, in other words, gives him credit, if it believes that in due course the tradesman will be in a position to pay off the overdraft with interest. Belief is of the very essence of credit.

Real and Financial Credit. Credit, it will be seen upon reflection, is of two kinds, called by Major Douglas "Real Credit" and "Financial Credit" respectively. Adopting his terminology, Real Credit may be defined as *an estimate of the capacity of the* *person credited to deliver goods or services where, when and as required.* The Real Credit of a manufacturer is based upon the belief of others in his capacity to deliver goods, and may be due to his possession of suitable machinery or an accumulated stock of past products. Financial credit, on the other hand, is *the monetary expression of the belief of the bank or other creditor in the capacity of the person credited to deliver money where, when and as required*, and is, in general, equivalent to an estimate of his capacity to dispose of his goods or services in return for money. By way of illustration: if A., a manufacturer, applies to his bank for an overdraft on security of his factory, the bank will estimate the market value of A.'s factory before allowing him to overdraw up to a certain amount, which amount will not be in excess of such value. In other words, the lender considers the borrower's real credit, his capacity to deliver his goods or services, and if he comes to the conclusion that the said borrower has insufficient Real credit, will refuse to advance him financial credit. So far so good, but the analysis is not yet complete. A lender will not give credit to a would-be borrower simply because the borrower can deliver a large stock of boots upon demand. He will only give financial credit if he believes that the borrower can sell his goods, and out of the prices obtained from the public repay the amount advanced in money. Indeed, the lender would be disagreeably surprised if the borrower attempted to wipe out his indebtedness in kind, by presenting equivalent value in footwear.

The Bases of Financial Credit.

It would seem, then, that financial credit is in general based not only on the Real Credit of the borrower, but also upon a belief in the capacity of the community to absorb and pay for his goods or services. A trader may have quantities of beautiful and rare stones, but if he have no market for his wares he cannot obtain financial credit in respect thereof. This is abundantly illustrated in the circumstances of to-day. Most manufacturers are carrying stocks in much greater volume than ever before. This is partly due to lack of purchasing power abroad, and in part to credits and currency at home being insufficient to meet demands (a). Put otherwise, although real credit is good and commodities are superabundant, yet the producer of to-day is without any extensive market for his goods. Consequently the banks have felt obliged not only to restrict the issue of further financial credits, but also to withdraw some of the credits they have so lavishly distributed during the past few years. Unfortunately the effect of the withdrawal of these credits is that manufacturers, becoming short of money, cannot continue to

(a) See *infra*, page 48.

pay wages until their stocks are cleared. As the flow of purchasing power in the form of wages, etc., diminishes, so does it become increasingly difficult for the community to buy up these accumulated stocks. It is once again the old story of a very vicious circle.

Loan Capital. The following extract from the writings of Walter Bagehot may perhaps help towards a realisation of the extent to which Industry to-day is dependent for its very existence on Bank issues of credit. In 1873 he wrote as follows :—

" English trade is carried on upon borrowed " capital to an extent of which few foreigners " have an idea and none of our ancestors could " have conceived. . . . If a merchant have " £50,000, all his own, to gain 10% on it he " must make £5,000 a year, and must charge " accordingly : but if another have only £10,000 " and borrow £40,000 by discounts . . . he " has the same capital of £50,000 to use, and " can sell much cheaper. If the rate at which " he borrows be 5%, he will have to pay £2,000 " a year ; and if, like the old trader, he make " £5,000 a year, he will still, after paying his " interest, obtain £3,000 a year, or 30% on his " own £10,000. As most merchants are content " with much less than 30%, he will be able, it " he wishes, to forego some of that profit, lower "the price of the commodity, and drive the "old-fashioned trader,—the man who trades on "his own capital,—out of the market. In "modern English business, owing to the cer-"tainty of obtaining loans, on discount of bills "or otherwise, at a moderate rate of interest, "there is a steady bounty on trading with "borrowed capital, and a constant discourage-"ment to confine yourself solely or mainly to "your own capital." (b). If Bagehot could write so emphatically in the year 1873, one is led to wonder how he would have expressed himself had he lived to view the economic developments of the present day.

Bankers' Credit and Prices. It is not difficult to realise how great and important a part is played in modern industry and commerce by Bankers' Credits. What is not always realised is that these issues of financial credit are virtually issues of new money. The effect upon the level of prices, that is, upon the purchasing-power of existing credit and currency is the same. To all intents and purposes the Banks have in course of time acquired a monopoly of credit-issue and credit-restriction, and even Governments do not hesitate to pledge the National Credit for the inferior credit that the Banks create. In support of these assertions it is impossible to do better than cite the words of an eminent Banker, the Rt. Hon. Reginald

(b) Lombard Street, pages 8 and 9.

McKenna, Chairman of the London Joint City and Midland Bank Limited. Speaking on January 29th, 1920, he said: "What, then, has "caused high prices? . . . If we take the "community as a whole we may be quite sure "that as spending-power grows the demand for "goods grows with it, and as demand grows, "prices rise. Here, then, is the first step that "we must take to solve our problem: we must "find the cause of this increase of spending "power. . . . The actual spending-power of "the public is gauged by the total amount of "currency in circulation added to the total "amount of Bank deposits. In 1914 the public "spending power was £1,198,000,000: to-day it "is £2,693,000,000, an increase of £1,495,000,000, "or 125%. . . If we take 100 to represent "the cost of living in 1914, the corresponding "figure to-day would be about 225, or an in- "crease of 125%. . . .

Bank Loans and Deposits. "What is the cause of the increase "in spending-power, or, in other "words, of the increase in cur- "rency and Bank Deposits? . . Let me give "a brief illustration of how Bank Deposits are "increased by Bank Loans. When a Bank "makes a loan to a customer, or allows him an "overdraft, in the ordinary course the loan "will be drawn upon, or the overdraft will be "made by a cheque drawn by the customer

" upon the Bank and paid into someone's credit " at the same or another Bank. The drawer of " the cheque will not have reduced any deposit " already in existence, because we are supposing " a case in which he has been given a loan or " allowed an overdraft. The receiver of the " cheque, however, when he pays it into his own " account, will be credited with its value, and " thereby a new deposit will be created. . . . " In the same way, when a Bank buys or dis- " counts a bill, the proceeds of the sale are " paid into the credit of the seller's account, and " increase the total of Bank Deposits: and in " the same way also when a Bank buys War " Loan, or makes any other investments, the " purchase money goes to the credit of some- " body's account in some Bank, and increases " the total of deposits.

A few Figures. " Let us look now at the increase of " Bank Deposits since 1914, and see " to what extent this increase is due " respectively to payments in of additional " currency and to Bank Loans. In June, 1914, " the Banks held £75,000,000 of currency. Last " month (December 1919) the figure stood at " £191,000,000. The Banks therefore held more " currency to the amount of £116,000,000, and " to this extent the increase in the aggregate of " Bank Deposits is accounted for by payment " in of currency. But it is estimated that since

"June, 1914, Bank Deposits have risen by "£1,230,000,000. If £116,000,000 of this amount "are accounted for by payments of currency "into the Banks, there remains £1,114,000,000 "which, if the previous analysis be accepted as "correct, we must attribute to Bank Loans."

Comments. Here for a while let us pause to consider the meaning of the above quotation from the speech of the Chairman of our largest Bank. First we remark that *the effect upon prices of additional spending-power is the same whether that spending-power take the form of additional legal tender issued by the Government, or additional financial credit created by the Banks.* In the second place we see that the Banks can issue this credit to their customers without any detriment to themselves. When A. lends B. £10 he becomes thereby so much the poorer. But when a Bank allows a customer an overdraft, the amount of this overdraft appears as a new deposit there or elsewhere, and the Banks' financial position is practically the same as before, except that more interest is charged on the overdraft than is allowed on the deposit. The only limit to the Banks' power to create new credit is their legal liability to pay out legal tender on demand in exchange for it. A 15% backing of legal tender is considered more than ample security (c). *Thirdly, we have to remark the fact that only approximately*

(c) See also *infra*, pages 60 and 94.

one-fourth of the increase in our spending power during the War was due to the creation of additional currency by the Government, and that three-fourths was due to what was in fact the creation of new money by the Banks. This is a fact that is frequently overlooked by those who blame the Government for issuing "paper-money." It is true that from time to time certain of these loans are paid off, and deposits correspondingly diminish; but, as we saw a little while ago(d), the whole trend of modern finance is to encourage trading as far as possible on borrowed capital, and in many cases one loan is only repaid by the obtaining of a larger credit elsewhere. We can realise, therefore, how, under the present economic system, Bankers' credit has become a necessity to modern Industry (e).

Bank Loans and Prices. It is a fact often overlooked that the tendency of these issues of credit by Bankers is to raise the level of prices. In normal times, it is true, the money created by the Banks and lent to manufacturers is used to further production. This increase, it may speciously be contended counteracts, by the law of Supply and Demand, the tendency of the price-level to rise consequent upon an augmentation of the spending-power in the hands of the community. How is it, then, that for some years prior to the Great War the

(d) *Supra*, page 20.
(e) See *supra*, page 16.

level of prices had been gradually rising ? (f). How is it that in November 1920, two years from the signing of the Armistice, and after two years of intensive production, prices were considerably higher than they were in November, 1918 ? (g). There are at least two reasons that may be given to explain this tendency of Bank Credit Issues to raise the level of prices. 1. The flow of new spending-power into the community precedes the flow of new goods. The prices of existing goods rise. The cost of living increases. Wages may perhaps rise to meet this. Cost of production rises with wages. By the time the new goods are ready for the market, the general level of prices has risen, perhaps imperceptibly in individual cases, but none the less certainly in the aggregate (h). 2. In the second place, whereas the "Law of Supply and Demand" regulates the *maximum* price of a commodity, the *minimum* price is determined by quite another consideration, namely, the cost of production, below which, under the present system, it is not economically feasible to sell (i).

Government Borrowing. Mr. McKenna continues : "We have "seen that during the last six years "Bank Loans have been responsible for £1,100,000,000 in Bank Deposits. . .

(f) Between the years 1910 and 1914, there was an increase of 20% in the total of Bank Deposits, and of 7% in the cost of living.

(g) The Ministry of Labour index figures for the cost of living were (taking August 1914 as 100), November 1918, 222 ; November 1920, 276.

(h) See *infra*, pages 49 and 50.

(i) See also *infra*, pages 54 and 55.

"To whom, then, have these Loans been made? "It is impossible to give precise figures, but the "best estimate that I can form is that of the "total of eleven hundred million, eight hundred "million pounds, including Treasury Bills, have "been lent to the State, and three hundred "million pounds to Trade. The Government, "under the overwhelming necessity of War "Effort, has been the great borrower from the "Banks. . . . When the Government bor-"rows directly from the Banks, or indirectly "from the Banks through members of the public, "who obtain Bank Advances to enable them "to take up loans, the Banks subscribe by "drawing on their balances with the Bank of "England. The money received by the Govern-"ment is paid out in due course to meet liabili-"ties to contractors, by whom again it is paid "to the credit of their accounts with the Banks. "The customers' deposits are thus increased, "and as the Banks in their turn pay the money "into their accounts at the Bank of England, "the previous withdrawals from that Bank are "made good. Thus the nett effect of the "whole proceeding is to increase the total "amount of Bank Deposits by the exact amount "which the Banks have lent to the Government "directly or indirectly, and the whole weight "of additional spending power is thrown upon "prices."

Trade and Government Loans.

Again, what exactly does this mean? First, of course, that only about 30% of the increase in prices was due to loans for the purpose of trade, and that approximately 70% was the direct result of Government borrowing. But the inference is strong that if the Government had not been compelled to borrow even one penny, Bank Loans to manufacturers or traders would, by themselves, have caused a considerable rise in prices during that period. Secondly, it means that when the Community, by its Government, borrows from the Banks, the nett result is that the Community has the doubtful pleasure of paying at least 2% more per annum for the money it borrows through its Government than, as the Public, it receives when it pays the same money into the Banks. Thirdly, and still more important, we see that proportionately to the amount lent by the Banks to the Government does the Community, both as Government and Public, labour under the burden of enhanced prices. And yet, so accustomed are we to our present financial system, we do not deem it intrinsically absurd to see the Community, as represented by its Government, pledging the Communal Real Credit to secure an inferior credit from a small section of itself—the Financiers and the Banks—whose whole ability to create such Financial Credit is the outcome of the economic stability of the

Community as a whole. *A true Government should lend, not borrow.*

The Basis of Credit Power. That the Financiers and the Banks do indeed derive all their power to issue Credit, and even their ability to carry on at all, from the stability of the Community itself, may be made clear by a single illustration. When, in August 1914, Great Britain declared War on Germany, there was an immediate rush on the part of the public to withdraw their deposits, and particularly their gold, from the Banks. Had the public continued to demand payment in gold, the Banks would have had to stop payment altogether: their credit, that is, the belief of the public in their stability, would have vanished, and with it the possibility of their continued existence. But so dependent has the Community grown under the present system upon the stability of the Banks, that the Government felt itself obliged to interfere to prevent their failure. Consequently, at the request of the financial magnates, the Government declared a three-days Bank Holiday, and when next the Banks resumed payment, the demand of the depositors for their money was met by a flood of Treasury Notes, hastily printed in the meantime. It was thus the Treasury, the purse of the Community, that saved the Private Banks by utilising Public Credit: *and it is undoubtedly true that behind* *and supporting the Credit of the Banks there is and has always been the Real Credit of the Community* (j).

Policy and Prosperity. *The prosperity of an industrial community is dependent upon a wise and disinterested financial policy.* A short-sighted or self-seeking policy on the part of those who exercise the power of credit-issue and credit-restriction is disastrous to the economic and industrial well-being of the whole community. The Cunliffe Policy of gradual monetary deflation may be instanced as a case in point. To quote once again the words of Mr. McKenna (k): "A declared policy of "monetary deflation is a public warning to the "trader that he must be prepared to lose on "every contract for the future delivery of goods. "Owing to the general fall in prices, the market "price of goods when he gets them will be lower "than at the time when his contract was made. "A policy of gradual monetary deflation, but "deflation so guarded as not to interfere with "production, is a policy impossible of execution. "Trade is never good when prices are declining, "but the consequence of a continuous fall in "prices entailed by dear money and restriction "of credit, and accentuated by heavy taxation, "must be complete stagnation of business." Without prolonged insistence upon the truth,

(j) See also *infra*, page 58.

(k) In a speech to the shareholders of the L.J.C.& M. Bank, January 28th, 1921.

often overlooked but self-evident upon reflection, that deflation of money means inflation of the real burden of the National Debt and therefore of direct or indirect taxation, enough perhaps, has been said to shew how an injudicious financial policy can work havoc with industry. And yet, the general public has no voice in the matter. "He who pays the piper calls the tune" is only another way of saying that he who controls credit controls policy.

Democracy? The recent Bank amalgamations and consequent gathering up of this power of credit-manipulation into the hands of the Boards of the "Big Five" (namely, Barclays, Lloyds, London County Westminster and Parrs, London Joint City and Midland, and the National Provincial and Union Bank of England), have raised a new menace to modern democracy. Almost without protest on the part of the Community, this dominating power has been concentrated in the hands of a few financial magnates, giving to each of them a control of National Policy far in excess of that of a Cabinet Minister. A Cabinet Minister is responsible to the country for his mistakes. A Financier is responsible to no-one for the consequences of his policy. This country prides itself on being essentially democratic, because the policy of the majority as expressed at the polls is said to prevail. And so it does, in mere matters of administration. But when financial interests and economic policy are concerned, then it is Finance that rules, and Finance alone. And it must be noted well that the policies of the Financier and of the individual member of the public are by no means necessarily coincident. The individual member of the community looks upon money, rightly, as a title to goods and services; but the Financier looks upon goods and services as a means to money, and if it pays him to keep commodities in short supply and prices up, he has the wherewithal to effect this object (l). So long as the control of the issue and restriction of credits is left in the hands of private individuals, so long will it be little better than bitter mockery to speak of this, or any other industrial community, as being "democratic."

Credit Power and Democracy. One is therefore led to conclude that at the root of the economic evils of the present day lies neither the greed of Capital nor the exorbitant demands and extravagant policy of Labour, but that behind these, and stronger and deadlier than either, there is the present financial system, to which both Capital and Labour are slaves (m). Labour sees the Capitalist in his more comfortable circumstances, and, failing to look behind the obvious, concludes that this same Capitalist is the hereditary foe.

(l) See *infra*, page 57.
(m) See also *supra*, page 5.

In truth, the enemy is not the Capitalist,—not even the Financier personally (for the Financier is, after all, generally as humane and well-meaning a man as his fellows)—but this present-day financial system. Until Labour and Capital realise that their interests are one in this matter—until they unite to replace this present financial system by one more in tune with the ideals and aspirations of the times—until then, it is submitted, will our national and international well-being remain in jeopardy.

Consumer Control of Credit. In what direction, then, are we to seek the solution of our problem ? Briefly, it lies here. Financier, Capitalist, Worker, all have at least one attribute in common; all to a greater or less degree are consumers. It is from this point of view alone that they see money in its natural and true light, as a title to goods and services—merely a convenient and conventional machinery. Industry should be carried on for the benefit of the Consumer, that is, for every member of the Community, and not merely for the enrichment of a small section thereof : but this ideal state of affairs will never be realised until the ultimate control of the Community's credit rests with the Consumer (n).

n) See also *infra*, pages 57 and 119.

CHAPTER III.

Industrial Stagnation.

Introductory. There can be little or no question about the truth of the statement that the immediate cause of the present industrial stagnation is a lack of purchasing-power on the part of the Consumer, whether at home or abroad. However great and real may be the need for goods, unless demand is backed by purchasing-power it is not a commercial proposition to cater for it. Industry cannot continue to produce goods, unless there is an *effective* demand for them. When we begin to ask ourselves the reason for this present serious lack of purchasing-power on the part of the Consumer, we shall find more than one very plausible explanation. In the course of this chapter we shall put forward what we venture to suggest is the fundamental reason.

The Flow Theory. Perhaps the most elusive conception of the Douglas Analysis, and one which confronts the enquirer at the very outset of his investigations, is that which we may, for shortness, term the "Flow Theory." Briefly, it is this. "*In any given unit of time, the flow of purchasing-power to the various individuals connected with Industry* *is never sufficient to buy the total products of Industry produced within that unit of time, at the prices which Manufacturers are, by the present system, compelled to charge.*" It may be well to quote Douglas' own words in support of this proposition. His argument runs thus :—

Douglas' Argument. "A factory or other productive "organisation has, besides its eco-"nomic function as a producer of "goods, a purely financial aspect. It may be "regarded on the one hand as a device for the "distribution of purchasing-power to individuals "through the media of wages, salaries and "dividends, and on the other hand as a manu-"factory of prices—financial values. From this "standpoint its payments may be divided into "two groups :—

"Group A. All payments made to individuals. (Wages, Salaries and Dividends.)

"Group B. All payments made to other organisations. (Raw materials, Bank Charges, and other External Costs.)

"Now the rate of flow of purchasing-power to "individuals is represented by A., but since all "payments go into prices, the rate of flow of "prices cannot be less than A. plus B. The "product of any factory may be considered as "something which the public ought to be able "to buy, although in many cases it is an inter- "mediate product and of no use to individuals "but only to a subsequent manufacturer: but "since A. will not purchase A. plus B., a pro- "portion of the product at least equivalent to "B. must be distributed by a form of purchasing- "power not comprised in the descriptions "grouped under A." (a).

His Illustration. The concrete example given by Douglas is as follows:—"A steel "bolt and nut weighing ten pounds "might require in the blank about eleven and "a half pounds of material, representing, say, "3/6. The nett selling price of the scrap "recovered would probably be about one penny. "The wages value of the total man-hours expen- "ded on the conversion from the blank to the "finished nut and bolt might be 5/-, and the "average plant charge 150% on the direct time "charge, i.e., 7/6. The factory cost would "therefore be 15/11, of which 7/6, or just under "one-half, would be plant charge. Of this plant "charge probably 75%, or about 5/7, is repre- "sented by the sum of items which are either "afterwards wiped off for depreciation and "consequently not distributed at all at that "time, or are distributed in payments outside "the organisation, which payments must clearly

(a) "Credit Power and Democracy" (2nd Ed.), pages 21 and 22.

" be subsequent to any valuation of the articles " for which they are paid, and do not affect the " argument. Without proceeding to add selling " charges and profit, it must be clear that a " charge of 15/11 on the world's purchasing- " power has been created, of which only 6/10 is " distributed in respect of the specific article " under consideration " (b).

His Conclusion. Now, if the products of any one factory in any given unit of time cannot be purchased by the wages, etc., distributed to individuals by that factory within the same unit of time, it follows that the aggregate production of *all* factories in the community cannot be purchased by the currency and credit distributed in the process of industry. In other words, the total purchasing-power of the individual members of the Community is ever increasingly unable to buy the products of the Community at the price the manufacturer is, by his system, compelled to charge. Consequently, large stocks of unsold commodities are accumulated which, unless bought by means of new Bank-credits or exported to foreign markets, can only be purchased by money subsequently earned. But this money, in its turn, is only distributed to the Community as payment for further production. Thus it is that we find the whole industrial world, either glutted with unsaleable accumulations of stock, or else plunged

(b) " Economic Democracy," pages 59, 60 and 61.

into a maelstrom of production,—a mad striving of the various communities to earn, by producing new goods, sufficient wages and dividends to purchase the accumulated products of the past, and being left ever farther behind in the race.

A Criticism. It is certain to be objected, however, by those who take what may be called a static view of Industry, that Douglas, whilst taking into account the fact that prices include all the moneys paid out by his factory in the given unit of time, whether to individual members of the Community (his Group A.), or to other organisations (his Group B.), does not seem to take into account the fact that not only are individual members of the Community, but also other producers, potential purchasers of the products of this factory. An illustration will, we hope, make their position quite clear. Suppose within a given Community the average ratio of the disbursements comprised under Group A. to the total cost of production be taken as 11/- in the pound. This means that if, in a given unit of time, the Community produces new goods at a cost of £20,000, of this sum £11,000 has been paid out in wages, salaries and dividends to individual members of the Community, whilst £9,000 represents inter-factory payments. What, then, do these inter-factory payments represent? They represent the value of all existing goods consumed in the process of the production of the £20,000 worth of new goods. And so, although the cost of all the goods made during the period under consideration aggregates £20,000, yet, *during this same period*, there have been consumed (and paid for in the process) £9,000 worth of goods already in existence, leaving only a nett increase of £11,000 worth of goods to be bought by the individual consumers. On the other hand, the wages, salaries, etc., distributed to individuals during our unit of time are also *ex hypothesi*, £11,000, a sum exactly sufficient to purchase this nett increase. Whilst not denying that, if Industry be regarded as something static, this criticism may appear well-founded, it is, nevertheless, essential to remember that Industry is not really static at all, but is an ever-expanding organism. Viewed in this light, the increasing inability of a progressive industrial community to purchase and absorb the whole of its own production becomes more easy to understand.

It may, perhaps, be helpful to those whose "dynamic perception" of Industry is not yet sufficiently developed to follow Douglas in his argument, if we attempt to present one aspect of the case in a somewhat different form, and from another point of view. Before we proceed to do so, however, it may be well to emphasise the fundamental distinction that exists between "ultimate" and "intermediate" production.

Ultimate and Intermediate Production. There are two broad classes of goods that Industry is capable of producing. These are (1) *Ultimate Commodities*—goods which are ultimately produced, and to provide which is the only true purpose of Industry. These are the goods which you and I, as individuals and consumers, require. Then (2) there are those goods from which, and by means of which, ultimate commodities are developed. These we will call *Intermediate Products.* The importance of this class of production lies solely in its function and capacity to produce other goods,—ultimate commodities which the Consumer demands. Bread is an ultimate commodity—the bakehouse oven is an intermediate product. Some kinds of goods are either ultimate or intermediate, according to the use to which they are put. Coal, for instance, is either ultimate or intermediate, according as it is used for heating a private house or a blast furnace. The goods that Industry exists to deliver are ultimate commodities, and intermediate production has no value to the Consumer unless it is producing the commodities he desires.

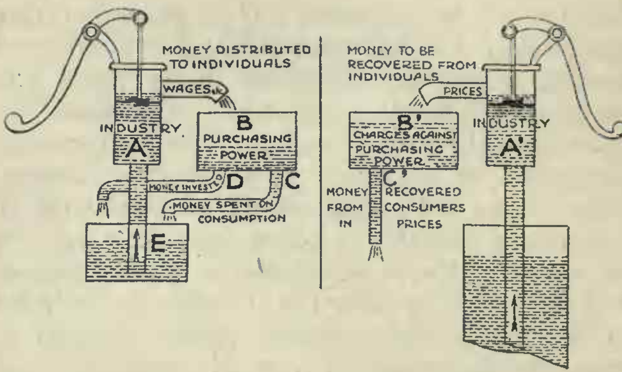
Market Topheaviness. Let us, then, imagine the existence of a self-contained industrial community, and assume the presence therein of manufacturing companies owning goods which it has cost, say, £1,000,000 to produce. Some of these goods will be intermediate products, such as plant and machinery; the remainder will be ultimate commodities. Let us assume that the total purchasing power in the hands of individual members of the community is, at the moment under consideration, £100,000. The £1,000,000 represents the aggregate amount of all payments made (however long ago) to individuals in the course of the production of these goods, the greater part of which has already been spent and is no longer available as purchasing-power in the hands of consumers. Now, *every penny distributed to individuals in respect of both kinds of production has, sooner or later, to be recovered in the prices charged to the public for ultimate commodities only.* The effective demand for ultimate commodities is limited by the amount of available purchasing-power in the hands of individuals, namely, £100,000. If, we suppose that during the ensuing unit of time, all payments made to individuals during the course of production (that is, all wages, salaries, and dividends) are spent directly in the purchase for consumption of ultimate commodities, *the average length of time* that must necessarily elapse before money so distributed can be recovered in prices will tend to remain fairly constant. But let us, instead, suppose that various members of the community invest, say, £10,000 in Industry. This sum is duly paid out in the form of wages, etc., in the course of production. The total available purchasing-power of the individual members of the community, however, remains unaltered at £100,000 (for the £10,000 paid into certain pockets as wages, etc., has been taken out of other pockets as investment), while there is now an additional £10,000 to be eventually recovered in prices of ultimate commodities *An increase in the monetary value of unrecovered payments without an increase in the amount of available purchasing-power in the hands of would-be consumers naturally lengthens the average time that must elapse before a payment made in the course of manufacture can be recovered in price.* Hence manufacturers find themselves better equipped for production, without any greater effective demand for the goods they can produce. Stocks begin to accumulate, as at the present time, unsaleable because the community has not sufficient available purchasing-power to buy them. The wheels of industry are slowed, and there is an immediate drop in the rate of flow of money into the pockets of the consumers as wages, etc., and a corresponding diminution in the effective demand for ultimate commodities. This automatically increases the length of time that must elapse before payments made in the course of production can be recovered in prices. Acute "Market-Topheaviness" of this description is the prime cause of Industrial Stagnation.

New Capital Issues. We have just seen how the investment of money in industry which would otherwise be spent on the purchase of existing commodities increases, however slightly, the tendency of the market towards "topheaviness." This, in itself, is a sufficient condemnation of the existing system, for the investment in production of money which would otherwise be used to consume wealth, ought in all sanity to be a benefit to the community. Be that as it may, of late years the clamour for new capital has resulted in a marked increase of topheaviness. The amount of new Capital Issues in the U.K. alone during the year 1919 was £237,541,363, and during 1920 it amounted to £384,210,818, making a grand total for these two years of over six hundred and twenty million pounds. And these stupendous figures exclude altogether all direct borrowings by the British Government for national purposes, all shares issued to vendors, all allotments arising from the capitalisation of reserve funds, and (except where such have been made public) all issues of private companies (c). The result is seen in the acute market-topheaviness of the present day.

Capitalization of Profits. It must be borne in mind, however, that it is not only by means of new Capital Issues that "top-

(c) L.J.C.M. Bank, Monthly Review, April 1921.

heaviness" is increased. If a manufacturing company, out of accumulated and undistributed profits, makes an extension to its plant and machinery, the effect is precisely the same. In order that the total products of the past may be purchased, it is clearly necessary that, among other things, all profits should be distributed to consumers directly, in order that they may be expended. Wages and salaries alone cannot buy the whole production if profit be included in the price. But if some profits, instead of being distributed directly, are diverted to finance new production, and are only distributed as payment for further work done, then there is a corresponding augmentation of market-topheaviness. Now, it would seem that any increase in plant or machinery must of necessity be paid for either out of newly-raised capital or out of undistributed profits. An increase in productive capacity, therefore, *unaccompanied by a similar expansion of purchasing-power*, adds its quota to the general topheaviness of the market. Profiteering, so often blamed for the present economic situation, is certainly a virulent aggravation of the industrial malaise, but it is not a primary cause thereof. That lies inherent in the system itself.



Diagrams of the Cause of Market Topheaviness. (1) Purchasing Power. The above is an attempt to express the foregoing proposition in diagrammatic form. Considering first the diagram on the left-hand side, we see Industry represented as a pump (A), from which there flows a stream of wages, salaries, dividends etc., into a storage tank (B). This tank (B) represents the Community regarded as a potential consumer of ultimate commodities. The contents thereof denote the as yet unexpended wages, etc., received by individual members of the Community in the course of production, i.e., the amount of money available, if desired, for the purchase of ultimate commodities. At the bottom of the tank (B) there are depicted two outlet pipes, (C) and (D), through which money leaves the pockets of Consumers. Through pipe (C) there flows that portion which is spent in the consumption of ultimate commodities. Through pipe (D) there flows all money withdrawn from the public for the expansion of Industry, either directly by means of new Capital Issues, or indirectly, by the utilisation for that purpose of undistributed profits. Both these pipes eventually discharge their contents into a sump (E), whence the same money is in due course pumped again, in the form of wages, salaries and dividends, into the storage tank (B). Here, then, we have a rough illustration of the way in which money flows from Industry to the consumer and back again.

(2) Charges against purchasing power. Let us now turn our attention to the diagram on the right-hand side. Every payment made to individuals in the course of production has two distinct aspects. Positively, it is an addition to the Consumers' purchasing-power. Negatively, seeing that every penny must sooner or later be recovered in the prices of ultimate commodities, it is a fresh charge against such purchasing-power. So here we see Industry, again depicted as a pump (A′), pouring out a stream of charges against purchasing-power into a storage tank (B′), exactly equal to the flow of wages, etc., passing from (A) to (B). The contents of tank (B′) may be regarded as the total amount of payments made to individuals in the course of production which have not yet been recovered by Industry in the prices of ultimate commodities sold to the Consumer. More shortly, it represents the total amount of outstanding charges against purchasing power. Materially, these charges are represented by stocks of unsold goods (both intermediate and ultimate) within the community. This tank (B′) has but a single outflow pipe (C′). Money spent on consumption reduces not only the available purchasing-power of consumers, but also the total value of payments still to be recovered in prices. The outflow from tank (B′) along pipe (C′) is therefore exactly equal to the outflow from tank (B) along pipe (C).

Diagrams Compared. Taking the diagrams together: the inflow into both tanks (B) and (B′) is the same; the outflow from tank (B) is greater than the outflow from tank (B′) by the amount flowing down the pipe marked (D). Therefore the contents of tank (B′) are ever increasing in comparison with the contents of tank (B). In other words, the total charges against purchasing-power are ever expanding in comparison with the amount of the available purchasing-power itself, which means that *the average time which must elapse before a payment made in the course of production can be recovered in price from the Consumer is gradually lengthening.* Unrecovered payments are represented by accumulated stocks. Industry is gradually becoming choked with its own production.

Comments on the Diagrams. The above diagrams, for the sake of simplicity, deliberately omit any reference to the part played by the Bankers in the financing of Industry, and it may perhaps be contended that this omission entirely vitiates the argument. We do not think so, and for the following reasons. First of all, while we have made no direct reference to the Banks, the term purchasing-power, or money, includes not only legal tender, but also Bank Credits (d). An issue of new Bank Credit to Industry would be diagrammatically represented by the addition of a certain volume to the contents of the sump (E) which has to pass through the pump Industry before helping to swell the purchasing-power of consumers, consequently also swelling the total charges against such purchasing-power. And again, we know that, although the normal tendency is for the amount of money in the possession of the community to increase steadily (unless a deliberate policy of deflation is adopted), yet this increase is by no means commensurate with the simultaneous expansion of Real Credit. Any Real Credit Increment not paid for by entirely new money must be, directly or indirectly, financed by money withdrawn from the pockets of Consumers,—money which would otherwise

(d) See *supra*, page 21.

be spent on consumption. Hence there is a steady flow of purchasing-power along pipe (D), and in all essentials the foregoing analysis holds good.

Accumulations of Stock. *We conclude, then, that under the prevailing economic system, a modern industrial community is unable to absorb all its own production.* Anyone still unconvinced will, on looking about him, see and read for himself a daily confirmation of this conclusion. Whatever difficulties may obscure the line of thought leading to the final proposition, the events of every day testify to the truth of the proposition itself. It may not be unprofitable to quote the words of the Chairman of Barclay's Bank in his speech to the shareholders in January of last year (e): "Most manufacturers are "carrying stocks of much greater volume than "under normal conditions. At the present time "it is computed that in the cotton industry alone "there are stocks, either of raw cotton or of "piece goods, to the value of £50/60,000,000 in "excess of the usual supplies, and Bradford and "other great industrial centres are in the same "position. This accumulation of stocks is "largely due to the lack of purchasing-power "abroad. In part, however, it has resulted "from credit being insufficient to meet demands" Since when a consistent policy of monetary deflation has reduced still further the amount

(e) 1921.

of credit available (f). Mr. Goodenough, it will be observed, tacitly assumes that it is impossible for the people of Great Britain to purchase all the goods they produce. It is not, Heaven knows, that they have no need of these goods. In Northampton and Leicester, the homes of the boot trade, down-at-heel men are tramping the streets, thrown out of employment because they have helped to produce more than the manufacturers can sell. Which illustration is but one of many.

Bank Credit Issues. And so, in years of industrial prosperity, this "topheaviness" increases, until at last Industry can struggle on no longer. Then its wheels are slowed, and unemployment and wide-spread poverty result, because, as a community, we are "too rich." Relief of a temporary nature can, it would seem, be found in two directions, and in two directions only. (1) The Bankers may issue fresh credits to producers, by means of which Industry for a time manages to retain a semblance of prosperity, until yet vaster stocks are accumulated; or (2), the surplus production may be exported to foreign communities. If, however, Bank Credit Issues are in any way to relieve the existing tension, they can only do so when issued in respect of the production of goods not immediately required by the individual member of the community as such. In other

(f) See *supra*, page 29.

words, such issues must be, and in fact are, for the most part, made in respect of Capital Production, such as the building of factories, the erection of new machinery, the development of mines, etc. Such additional purchasing-power does, for the moment, increase the effective demand of the public for ultimate commodities, and cause a temporary abatement in the "top-heaviness" of the market. Yet, seeing that the whole amount of these issues must sooner or later be recovered from the public in prices, such beneficial effect has but temporary duration. The immediate result is to reduce the value of existing money all round. Only a proportion of the "market-topheaviness" is represented by ultimate commodities actually awaiting sale, the remainder being represented by intermediate products awaiting development into ultimate commodities. When, therefore, Bank Credit Issues are paid out to consumers in the course of the production of more intermediate products (so increasing the spending-power of the consumers), there is no immediate and corresponding increase in the quantity of ultimate commodities upon the market, and consequently prices tend to rise. It matters not whether new money comes into circulation as legal-tender or Bank Credit, the effect upon the currency and credit already in circulation is the same (g). We conclude, therefore, that an

(g) See *supra*, pages 21 23, and 24.

increase in productive capacity is, under the present system, either an aggravation of existing "topheaviness," if financed by the public, or, if financed by an issue of new credits by the Banks, the cause of a general rise in the level of prices.

Export, and the Struggle for Foreign Markets. There remains, however, to be considered the relief afforded by exportation, the need for which is by the Orthodox Economist tacitly (and, under the present system, rightly) assumed to be essential for the continued well-being of an industrial community. Surplus production beyond what the members of the community can afford to purchase for home consumption is, as far as possible, exported to countries that are not, as yet, glutted by their own produce. In this way a certain amount of the accumulated stocks may be disposed of and paid for without further depleting the already overburdened purse of the community. But it is not merely a question of exchanging surplus stocks for the products of other communities. If a community cannot afford to purchase at home the goods it is therefore obliged to dispose of abroad, neither can it afford to purchase what it imports in exchange for those goods. The whole struggle is therefore, to obtain a surplus of exports over imports, and that is why all the industrial nations of the world are busily competing for markets among their less "progressive" brethren, for spheres of influence, and for monopolies. Germany, the most intensively industrialised community in the world, was compelled to war by the economic necessity of capturing fresh markets for her output. The same artificial necessity that drove Germany into her mad bid for world supremacy acts and reacts on the United States, on Japan, and on ourselves. Disarmament conferences, such as that held recently at Washington, and similar international agreements may, indeed, postpone for a little while a catastrophe from the contemplation of which Civilisation shrinks in horror. But mere political or diplomatic action, however successful it may appear at the time, and however universal its appeal to all that is best in man, cannot do more than delay. If the present system be persisted in, stern economic necessity will render the final cataclysm inevitable. *Every year the surplus for export increases. Every year the available markets become fewer and fewer as other nations tend to become industrialised. Every day brings us almost perceptibly nearer to the next Great War.*

The Danger Ahead. Briefly to recapitulate. The present-day industrial community is unable to absorb all it produces. This is due to a blind adherence to an obsolete financial and economic system. This system is not replaced, because, for one reason, its retention ensures wealth and power to a small section of the community, who naturally utilise this same wealth and power in preserving the system. Surplus production accumulates, until the hunger and misery attendant upon involuntary unemployment endanger the national well-being. Bank Credit Issues are, under the present system, a two-edged remedy, and tend in the long run to aggravate rather than relieve the situation. Consequently the industrial nations of to-day are driven to seek what relief they can in export, and the necessity for the capture of foreign markets, ever growing more acute, paves the way for war. It would seem, then, that a continuance of the present financial and economic system is, in effect, but a lingering form of world-suicide—and perhaps not so very lingering, after all.

CHAPTER IV.

Prices and Price-Regulation.

"The Law of Supply and Demand."

It can hardly be superfluous, at the beginning of a chapter such as this, once again to emphasise the fact that the doctrine commonly known as "The Law of Supply and Demand" is only partial in its application to the regulation of Prices. It is commonly contended, and with some plausibility, that Demand, relative to Supply, regulates the price of any marketed commodity, and that therefore great accumulations of stock should (and do) ensure a lowering of prices to such an extent that the community as a whole could (and can) afford to purchase such stocks for consumption. It would seem to be overlooked that a fall in prices is only the after-reflection of a far greater decrease in the rate of flow of money into the community, and that it can be achieved only through wage-reduction, unemployment, industrial stagnation, class-bitterness, hunger and misery (a). Although prices are, on the whole, considerably lower than they were two years ago, yet it can hardly be disputed that the effective demand of the Community has decreased to a far larger extent, and that in spite of this fall in the cost of living, the wage-earning majority of the public is to-day

(a) *c.f. supra*, page 29.

being forced to accept a lower standard of existence. Less than ever can men afford the goods they need. Ultimately, it is true, this so-called " Law " does tend to fix the *maximum* price of a marketed commodity, but, as we have already pointed out (b) the *minimum* price at which a commodity can economically be sold is at present based on a very different consideration, that of the cost of production. Under the present financial system no manufacturer or trader can for long continue, however great his supply may be in relation to demand, or however small may be the effective demand in relation to his available supply, to dispose of his products at less than cost-price.

An era of combines. In the period that preceded this present era of trusts and combines, competition tended to counteract somewhat the effect of the former part of our dual postulate. It kept prices down to a " reasonable " level, which, under the existing financial system, is one only slightly in excess of the cost of production ; and it was generally considered good commercial policy to increase profits by increasing the quantity produced and sold, rather than, by restriction of supply, to endeavour to obtain the maximum profit from the sale of each individual commodity. But this is the era of the large trade

(b) *Supra*, page 25.

combine, whether of employers or workpeople, resulting to a large extent in the elimination of competition. It follows that the necessities of life are supplied, by those whose interest it is to regulate supply and price, to the members of the community at such prices as will absorb the greatest possible percentage of available purchasing-power; as will, in other words, enable the majority of the Community to maintain only a somewhat precarious existence. It follows also that whatever the level of wages in an industrial community may be, the majority of wage earners will never, under the present system, be able to afford much more than the bare necessities of life, and that anything in the nature of luxuries will ever remain the privilege of the minority.

Control of Industrial Policy.

We have already seen (c) how the power behind Industry, the power to control policy and direct initiative, lies with Finance. It is the power of credit-issue and of credit-restriction that dominates the whole existence of an industrial community. When a Bank is approached with a view to an issue of credit, it is only natural that it should most readily grant such an issue to the manufacturer or trader who is able to satisfy the Bank that he can make the maximum profit on the minimum outlay, *and whose increased activity will not tend to cause a*

(c) *Supra*, pages 29, 30, and 31.

fall in prices to the detriment of the Bank's other securities. We see, then, that under the present financial system, so long as money remains the sole inducement to production, " the control of " the policy of production rests, not with the " administration of productive enterprise, but, " as to its initiation, with the Banks and others " who finance production, and as to its con- " tinuance, with the price-makers, whose motive " is in the very nature of things anti-public, " since it aims at depriving with maximum " rapidity the individuals who comprise the " public of the independence conferred on them " by the possession of purchasing-power "(d).

Consumer Control of Credit. And thus we saw, at the conclusion of a previous chapter (e), that it is upon the Control of Credit by the Consumer, and upon that alone, that the possibility of any prolonged continuance of modern civilisation depends. Control of Credit by the Consumer is, of course, impossible so long as the whole of the Financial Credit distributed to individual members of the Community as such in the process of production is re-absorbed as quickly as possible through the medium of unregulated prices. Is there, then, no method whereby this re-absorption can be prevented, or at any rate greatly retarded ?

(d) Credit-Power and Democracy (2nd Ed.), at page 90.

(e) *Supra*, Chapter II.

Passing of the Gold Standard. There is, and it is the object of the later chapters of this book to outline such a system as would effectually place the control of credit, and therewith of the policy of production, in the hands of the Consumers as a whole (f). The first step in this direction must be to discard any notion of returning to our pre-war gold standard for currency. It can hardly fail to be realised by unprejudiced minds that a gold basis for an internal monetary system is an anachronism (g). It is, indeed one of the indirect benefits of the late war that it has torn us ruthlessly away from the gold basis, and although the pretence is still officially maintained that there is a gold backing (admittedly inadequate) to every Treasury Note, no thinking person is deceived thereby. *The only genuine, the only logical backing to a Treasury Issue of whatever description is, of course, the Real Credit of the Community* (h). Apart from the folly of basing our monetary system upon gold, which, after all, forms but an infinitesimal portion of the Community's resources, some idea of the danger to our national and international well-being inherent in a persistent adherence to a gold basis may be gathered from a perusal of Mr. Arthur Kitson's interesting treatise entitled "A Fraudulent

(f) See especially *infra* Chapters VI., VII., and VIII.

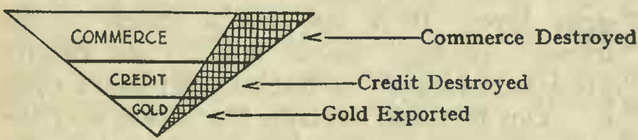
(g) See *infra*, page 111.

(h) See also *infra*, page 114.

Standard " (i), from which the following extract is taken.

Danger of a Gold Basis.

" The following illustration of the " triangle shows that at present all " our huge volumes of credit are piled " upon an insignificant amount of " gold, so that every golden sovereign represents " from twenty to one hundred sovereigns' worth " of credit.



" If, therefore, a million pounds of bullion " are exported, the Banks are compelled to call " in all the credit resting on that sum, in order " to maintain their so-called margin of safety. " Hence the movement of a comparatively small " amount of gold or legal tender means the " addition to or cancellation of a large volume " of currency. Some years ago *The Bankers' " Magazine* gave a most startling instance of the " effect of gold exports upon the prices of our " gilt-edged securities. During a period of ten " weeks a certain group of American financiers " drew from the Bank of England sums equal

(i) In this connection see especially the first eight, the tenth, and the eleventh chapters.

"in all to eleven million pounds in gold and "shipped it to New York. Prior to this opera- "tion these gamblers sold British Securities "heavily, and bought United States bonds and "shares. The transfer of the gold caused a "fall in the prices of 325 of our representative "securities, equivalent to £115,500,000, whilst "the absorption of this gold caused a corres- "ponding rise in Americans. This illustration "explains why a relatively small addition of "legal tender can sometimes seriously affect the "price level. It is not due so much to the "increase in legal tender, but to the dispro- "portionate amount of Bank Credit based upon "it. This fact also explains the reason why the "values of commodities have become so easily "the sport of speculators. The sudden creation "or withdrawal of credit, the export of gold "from one country to another, is sufficient to "ensure certain profits to the cosmopolitan "gamblers in finance." (j)

The Real Credit Basis. The alternative to a metallic basis for our monetary system is a Real Credit basis. It will be remembered that in our preliminary Chapter (k) we imagined a Community in which the gross increase in Real Credit within a given period of time was of the value of £1,000,000, and wherein the production-cost of goods simultaneously consumed was

(j) "A Fraudulent Standard," pages 153–155.
(k) *Supra*, Chapter I., at pages 10 and 11.

£800,000, leaving a nett increase in Real Credit, during that period, of the value of £200,000. If it be objected that such an increase is not a matter of real experience, the following considerations may be found helpful. There can be no question but that every year sees a substantial increase in the productive capacity of any industrial community,—new factories, new machinery, development of mines, etc,—over and above any simultaneous capital depreciation. Therefore, even if it were possible to consume all ultimate commodities (l) as fast as they were placed on the market, capital appreciation added to ultimate commodities produced must, except under very abnormal circumstances, exceed the simultaneous capital depreciation plus ultimate commodities consumed. Even during the late War, when our wastage almost exceeded our comprehension, ultimate commodities were replaced as speedily as they were destroyed, and in many industries capital production was unprecedented. [A general approximation to the Real Credit Increment of any year is afforded by the aggregate capital issues of the year following, for credit-increment is, roughly, whatever can be capitalised. Hence, by adding together the credit-issues of a given period, we should expect to obtain some guide to the nett increase in Real Credit that had taken place (m).] But to return to our illustration: Our community, we will

(l) See *supra*, page 39.

(m) See also *supra*, page 42.

suppose, has adopted a Real Credit basis for its monetary system ; the £200,000 value of the nett appreciation of the real credit of our hypothetical community (represented as it is by actual goods or development in the capacity to produce goods when, where, and as required) would thus be an effective backing to a Treasury Issue of financial credit. Indeed, we have seen (n) that without a money or credit-issue from some source or other, a community is unable to utilise its increased Real Credit, and Industry is hampered rather than stimulated thereby. Such issue, made by the Treasury as the purse of the whole Community, to the Consumers, who are the Community, up to a sum not exceeding £200,000 would achieve at least this : it would give to the Consumers as a whole a power to purchase those commodities they desired, or else a power to invest some of this credit in Industry,— a power, that is, to initiate the production of such commodities.

Distribution of Purchasing-Power to Consumers.

In making such an issue of purchasing-power to the Community as consumer, there are two possible courses to adopt. The first is to distribute purchasing-power direct to the individual members of the Community as such. The most obvious objection to such a course is that the general level of

(n) *Supra*, Chapter II., page 41.

prices would rise simultaneously and correspondingly, and that in the end the nett effect of such an issue would merely be to swell the manufacturers' credits at the Banks. Inflated prices would absorb the purchasing-power so distributed, and the majority of the Consumers, as such, would, in a very short space of time, have no more credit-power than they have at present. Such a course would lead to higher prices, unaccompanied by any lasting compensation. But the second course promises more satisfactory results. If the prices of commodities to the Consumer were to be regulated at some percentage of production-cost, the Treasury might then reimburse to the producers the amount they were out of pocket by such action. The level of prices being regulated by, and under, cost of production, it would seem that the automatic expansion of purchasing-power in circulation corresponding to the increase in the Community's Real Credit could not cause an inflation of prices (o).

Recapitulation. Let us briefly re-state the position. The foregoing analysis of the present-day economic system and the industrial conditions produced thereby points irresistibly to the conclusion that *so long as the prices of goods to the consumer are limited only by the purchasing-power available*, *and must of necessity*

(o) See also *infra*, pages 93 and 94.

include every cost incurred in the course of production, so long will it be utterly impossible for an industrial community to avoid the evils attendant upon a merciless competition for foreign markets, the degradation and misery that to-day wait upon compulsory unemployment at home, or the economic subjection of the life, liberty and resources of the whole community to the service of the financial interests of the few. "Consumer control of credit" (p) can only become a glorious reality, instead of a mere pious aspiration, through the regulation of prices, not by the bureaucratic and unscientific methods experienced during the Great War, but in proportion to the cost of production, and by the sale of ultimate commodities (q) to the consumer at what is to-day termed "under cost." The question immediately before us reduces, then, to this:—Granted that it is feasible to sell ultimate commodities to the Consumer at a percentage of production-cost, the Producer being reimbursed by Treasury Issues based upon the increase in the Communal Real Credit;—granted this (and we have attempted to show that this is not only possible but absolutely necessary for our economic salvation), what, then, is the right and proper proportion of the cost of production to be charged to the Consumer? In short, what is the "Just Price"?

(p) See *supra*, pages 32 and 57.

(q) See See *supra*, page 39.

But before we attempt to discover the answer to this most pertinent question—which answer provides the key to Douglas' constructive proposals, as distinct from his analysis—it may, perhaps, be well to consider shortly some of the suggestions emanating from other quarters for the solution of the economic riddle. This we propose to do in our next chapter. Meanwhile let us in a few words re-state the chief points of the Douglas analysis.

Industrial Stagnation. 1. The Industrial Stagnation of to-day is not due to any breakdown in Capacity to Produce but in our methods of distribution. Effective Demand (i.e., Demand backed by purchasing-power) is not equal to the Capacity of Industry to supply (r).

Unemployment. 2. Scientific inventions and discoveries have lessened the importance of the human labour element in Industry. There is no longer sufficient Effective Demand to employ all the available man-power (s).

War. 3. Under the present system, an Industrial Community is unable to purchase goods equivalent to its own output at the price

(r) Chapter I., at pages 12 and 13.
(s) Chapter I., at page 13.

the Producer is, by that system, compelled to charge. Hence arises an artificial necessity for thrusting surplus production on to foreign markets, in fiercest competition with that of other industrial communities (t).

Poverty. 4. Meanwhile, accumulated stocks clog the wheels of industry; real demand goes unsatisfied because it is not backed by purchasing-power; fresh purchasing-power is only distributed to consumers as payment for further production (u).

Plutocracy. 5. Ultimate control of policy, national or industrial, rests with Finance, that is, with those that hold the power of Credit-manipulation. Unregulated prices deprive the vast majority of the Community of whatever financial power they earn in Industry. Credit-Power is vested in a few Financiers (v).

The WAY OUT 6. (1) Scientific Price Regulation.
(2) Consumer Control of Credit (w).

(t) Chapter III., at pages 51, 52 and 53.
(u) Chapter III., at pages 33, 41 and 48.
(v) Chapter II., at pages 30 aud 31, and Chapter IV., at pages 36 and 37.
(w) Chapter IV., at pages 63 and 64.

Part II.

CHAPTER V.

Economic Panaceas.

Proposed Economic Remedies. Having now concluded our Analysis of the Causes of the Present-Day Economic Impasse, it may not be altogether without profit if, before we turn to an examination of the Social-Credit Proposals for the removal of those causes, we first of all briefly consider certain of the remedies advocated by other schools of current economic thought. If upon examination these various schemes are found to afford no sure road to a permanent betterment of conditions, and if we are able to lay our fingers upon the weak spot in each so-called remedy, we shall find ourselves well-equipped to criticise Major Douglas' own proposals, and to form an accurate estimate of their merits.

A Dual Solution. A year or eighteen months ago, one was, at every turn, confronted by posters and other forms of propaganda, urging upon all and sundry the need for increased output. To-day those posters have disappeared from our hoardings, and they have not been replaced. The propaganda leaflets have in their turn gone the way of the world, and they have not been reprinted. Seeing how great is the number of those for whom no employment can be discovered or created, owing largely to the closing down of factories unable to find a market for their products, such propaganda at the present time would seem, to say the least, somewhat tactless. Nevertheless even to-day there are not a few whose pet theories are too cherished to be upset by facts, and who still believe, and endeavour to impress on others, that the only solution of the present impasse lies in (1) Increased Production, coupled with (2) A general reduction in wages.

Increased Production. In his demand for increased output, the orthodox economist has, or at any rate until very recently had, the influential support of what the employing classes refer to as "sane labour." And, indeed, to examine his arguments superficially, he has a plausible case to present in support of his call for a general speeding up of production of all kinds. The more products a factory can turn out in a given time, he argues, the less does each several product cost to produce. This enables prices to be lowered to the mutual benefit of all concerned. Such an argument demands further consideration. Would increased production really enure to the mutual benefit of all concerned? Or even to the benefit of the majority? Let us examine this question in the light of the Analysis of the previous chapters. One of the primary causes of the prevailing economic distress is, as we have sought to demonstrate (a), the inability of the members of a progressive industrial community, with the purchasing power distributed to them in the course of production, to buy up or absorb all the products manufactured by that community. Consequent accumulations of stocks cause a slackening of production, as producers naturally cannot afford to manufacture new goods before they have disposed of those on hand. This slackening of production leads to a diminution of the amount distributed in wages, etc.. Seeing that by far the greater portion of the income of an industrial community is distributed to it in the course of production as wages to weekly wage-earners, there immediately follows a further reduction in effective demand. Increased Production is no remedy for Deficient Demand. It matters little that individually the several articles are cheaper —the deadweight of the "market-topheaviness" as a whole tends to be increased rather than diminished by such a policy. At the best, increased production can only afford a temporary alleviation: it offers no permanent remedy for the existing evils.

Lower Wages. Commonly allied with the above is the suggestion of a general reduction in wages. This can never be a solution. In the first place, it is a fact frequently overlooked

(a) *Supra*, page 48.

that prices rose before wages, and that therefore logically they should be the first to fall. And secondly, a fall in the amount distributed in wages only serves to emphasise the existing discrepancy between the purchasing power of the Community and the total charges against such purchasing power. Industry to-day is hampered by lack of demand. Demand, to be heard and catered for, must be backed by purchasing power. A general lowering of wages, and the consequent curtailment of what effective demand still exists, would hardly appear a logical way of setting the wheels of industry in motion once again. Eventually, of course, prices would tend to be favourably affected by the lowering of the cost of one of the chief essentails of production, viz., labour; but this result would not follow immediately; and even when prices fell, as a consequence of reduced wages, they would not in the aggregate fall by a greater amount than the total of such reductions—by a greater amount, that is to say, than the decrease in the available purchasing power of the Community. When all is said and done, an article costing only £50 to produce is no more within the reach of a man earning his £2 a week than is an article costing as much as £100 to produce within that of a man whose weekly wage is £4. The solution of the problem does not lie along these lines (b).

(b) See *supra*, page 54 and 55.

Higher Wages. And those members of the Community who regard higher wages as a panacea are but victims of a kindred delusion. It is still the old story of the vicious circle—higher wages, higher prices, *ad infinitum*—and many of the remarks made just previously with regard to the effect of a general reduction in wages may be applied *mutatis mutandis* to the effect of an all-round rise.

The Gold Standard. A very influential body of opinion, particularly amongst Bankers, is in favour of a return at the earliest opportunity to a Gold Standard of Currency. We have already (c) discussed this matter at some length, and we have seen that such a return would be nothing less than a calamity, except perhaps to that small proportion of the Community to whom it would bring additional opportunities for self-interested manipulation of credits and values. It is unnecessary to add anything here to what has been already said (c), except to repeat with all possible emphasis that a return to the Gold Standard is a step backwards. Such a standard for our currency is illogical, and exposes the community to unnecessary dangers, whilst effecting little or nothing in the way of a solution of its problems.

(c) *Supra*, pages 58, 59 and 60. See also *infra*, page 111.

Abolition of Money.

It might conceivably be concluded, then, that as neither the raising nor the lowering of wages can in any way materially assist in the solution of the economic riddle, the radical evil must lie in the system of wages itself, of payment for work done, and that therefore the abolition of money would bring order out of chaos. So thought M. Lenin, and calling to his aid the Communal Printing Press, he deliberately proceeded so to flood Russia with notes and paper currency of all kinds that soon Russian money became valueless, and was no longer regarded as an effective title to goods and services. Now, men are induced to work in return for money only so long as money is a means to them of obtaining the goods and services that they desire. When money ceases to be regarded as an effective title to goods and services, men can no longer be induced to work for monetary payment. Having, then, destroyed the inducement to work, M. Lenin had perforce to resort to compulsion. But compulsion is never so effective as inducement (one man, as most people are aware, may lead a horse to the water, but twenty can't make him drink)—and it is remarkably uneconomical in its working. For when one-half of the nation is employed in compelling the other half to work, national efficiency is necessarily low. And, besides all this, *Money is a very useful servant to man, when it is not his master.*

Administrative Control by the Workers. Another school of thought, and one which receives much publicity and even a modicum of support, both in the Capitalistic and Labour Press, would place a far greater share of the administrative control of industry in the hands of the workers themselves. Those who by their labour, either with hand or head, contribute to the production of goods should, it is plausibly contended, have a substantial voice in the control of production, as regards the amount produced, the methods employed, the hours worked, and the wages paid. Because of this, we find existing Whitley Councils, Trade Boards, Shop Stewards' Committees, and other similar ingenious machinery for admitting Labour to a greater share in industrial administration. But these devices, in effect, merely replace a manager by a committee of management, and united by divided control. Details may be altered here and there ; factory life may, on the whole, become more wholesome ; but the principal cause of the prevailing economic distress will remain still untouched. To continue to exist, Industry must still "pay its way," and so long as the present financial conditions hold sway, no mere transference of administrative powers from the few to the many can possibly effect any radical benefit to either party. The impotence of merely administrative control in the face of financial opposition is aptly illustrated by the failure of the Italian Communists' venture a year or two ago. These Communists seized and obtained entire physical control of several large factories, chiefly devoted to engineering and motor production. There was no real difficulty about producing motors; the factories, doubtless, were somewhat less efficient under divided control, but none the less the question of output was not the most pressing problem. What was of paramount importance to our band of direct-actionists was that, having turned out a motor, it was necessary to sell it, or exchange it for other commodities. Here the tremendous power of Finance was seen. Modern Industry cannot carry on without credit; and credit was withdrawn. Consequently it became impossible either to dispose of the finished products or to buy further stocks of raw material. In a very short space of time the movement petered out, strangled by financial opposition. Control of administration can only go a very little way towards a general betterment of conditions. To effect anything permanent there must be Financial Reform.

Profit Sharing. Some there are who urge that the workers should have, not indeed a share in the administration of industry (which they recognise as a technical matter, far better left in the hands of experts), but, in addition to their wages and other remuneration, a share in the profits. Quite apart from any ethical question as to whether or not it is right on principle that an employee of a well-paying concern should receive correspondingly more than one who does equally good work for a firm that is only just managing to struggle along, it is obvious that profit-sharing schemes fail in at least three directions to provide any solution to the economic problem. In the first place, the profit-sharing concern has as great an interest as any private manufacturer in the maintenance of high prices, if high prices mean enhanced profits. It is purely selfish in its attitude towards the Community as a whole. Secondly, the obvious policy of the participators in any such scheme is to do as much work as possible with as few workers, in order that the profit-shares of each may be as large as possible. When it is remembered that Industry to-day is unable to absorb all the available man-power—in spite of the marvellous ingenuity displayed in the direction of making work—it is clear that if a Community's production were carried on entirely by profit-sharing societies, there would still remain outside the charmed circle of producers an ever-increasing number of unemployed, whose prospect of obtaining employment would be even more remote than at the present day. The idea of allowing non-producers to share in the aggregate profits of the industry of the Community is entirely foreign to the inherent conception of profit-sharing schemes, which is, broadly speaking, to admit to participation in the profits of industry all those and only those who either by their labour or their capital contribute to production. Thirdly, those profit-sharing schemes that have temporarily proved fairly successful, such as that of Mr. Austin Hopkinson, have achieved that success by the incorporation of a live " team-spirit " among the employees owing to the active interest of all concerned in the financial returns of the particular factory in which they work. This team-spirit, which is in itself a very admirable thing, and worthy of all encouragement, makes possible successful competition with other factories wherein such a spirit does not exist. Bur if all industry was run on profit-sharing lines, then the team-spirit of one factory, fostered by self-interest, would give it no such advantage over its rivals, and industry would tend to be carried on by fewer people working at high pressure. However excellent in conception, and however beneficial under different financial and economic conditions, Profit-sharing affords no solution under the present system. Competition would tend to become keener ; and prices might fall in consequence : but the freedom of the employee would become progressively less, and the condition of the unemployed, in all probability, steadily worse. Control of policy would remain precisely where it rests nowadays, with Finance ; and the artificial necessity for export, with its attendant dangers, would continue unabated or even intensified.

Two Labour Suggestions. Two of the remedies advocated by thinkers (and some others) in the ranks of Labour deserve fuller consideration than there is space for in these pages. These are (1) The Nationalisation of Industry, and (2) the Capital Levy. Major Douglas has, however, dealt specifically with these suggested remedies in his book, "Credit-Power and Democracy" (d), and we shall here touch only briefly upon the more obvious objections to them.

Nationalisation. First, then, to deal briefly with the Nationalisation of Industry, or, in other words, State Ownership of the means of production. Apart from the almost insuperable difficulties entailed by an extensive expropriation carried out, we may be sure, in the face of a tremendous and organised opposition (and for the moment assuming a point that is certainly debateable, namely, that Industry so nationalised could be got working more or less smoothly), it needs no lengthy argument to show that the greater part of the claims advanced in favour of Nationalisation is far from being probable of realisation; that it is by no means the panacea that its advocates would have us believe.

(d) Chapters 5 and 7.

Nationalisation is, in fact, the substitution of State Ownership for Private Ownership,—an administrative change. Administration of Industry would be carried on by officials, and, in addition to all the other evils of departmental and bureaucratic control, the one (State) employer would be supremely powerful. The workers might, perhaps, be given some ill-defined control over local administration by means of Committees, Soviets, or what you will; but administration would still be a technical business, rapidly becoming more and more centralised. More and more would the individual worker become a mere cog in the industrial wheel, and an easily replaceable cog at that, while in trade disputes there would be no appeal from the fiat of the employer. Besides, under the existing financial system, the present-day economic dependence of the worker would continue, even in his hard-won Utopia, and so would the other evils of the present system, in greater or less degree.

The Capital Levy. Let us now briefly outline the main objections to Labour's second suggested remedy, namely, a Levy on Capital. *If the total purchasing-power in the possession of the individuals comprising an Industrial Community is inadequate to purchase all the production of that Community, mere transference of purchasing power from one* *pocket to another cannot effect any lasting betterment in its economic conditions.* It is certain, also, that the financial disturbance such a levy would cause would greatly outweigh any gain that might, at any rate temporarily, accrue to the Community therefrom. But what exactly is it that is proposed ? Broadly speaking, it is that an extraordinary tax of a certain percentage of each man's capital wealth should be made, the proceeds of which should go to reduce the vast National Debt accumulated during four years of war (e). Such a tax on Capital would in practically every case be met by the realisation of securities. Lands, houses, stocks, shares, and all manner of property, real and personal, would flood the market, and, if sold at all, necessarily fetch a very low figure. It is not likely that the Government would be in a position to accept any extensive payment in kind, and the market would be glutted, with demand practically non-existent. On whatever principle the tax worked, it would still leave some persons richer than others, and anyone able to purchase while the market was still glutted, would be materially wealthier than before. Those creditors who were paid off out of the proceeds of the tax would be able to take advantage of the prevailing conditions, and the financial discrepancies of to-day would remain unabated—perhaps augmented. But beyond and

(e) It is well, perhaps, to bear in mind that "extraordinary" taxes tend to recur and become permanent. Income tax was first imposed by Peel in 1842 as an "extraordinary" tax of 9d. in the £ on every man's income above £150.

above all this, the clamour which would certainly arise for bank overdrafts with which to meet the Levy would result in still further mortgaging the national resources to cosmopolitan finance (f).

A State Bank. It will have been observed that so far none of the remedies suggested for the cure of the economic malady have touched the one really vital matter—Credit. With one exception they are concerned either with minor adjustments of the existing economic machinery, or else with administrative changes on a lesser or greater scale. The importance of Credit, however, is at last forcing itself into general recognition, and there are at the present day two suggestions in addition to the Social Credit Proposals, that demand serious attention, if for no other reason than that they concern Credit. One such suggested remedy is the creation of a State Bank, whereby the issue and restriction of Credit would be taken out of private hands and come directly under Government control. Let it be admitted at once that this suggestion marks a great step forward. Then we should no longer see the Government pledging the Public Credit with private Financiers in exchange for the inferior Credit that these Financiers create upon the strength of that same

(f) This alternative method of realising the Levy by means of Bank Overdrafts would, as pointed out by Douglas in "Credit-Power and Democracy," Chapter 7, merely favour the Capitalist Producer,—the one man it is virtually impossible to tax.

Public Credit (g). But the establishment of such a Bank is open to many and obvious objections. Centralised financial power would be a very dangerous weapon in the hands of an unscrupulous, or what is almost worse, a short-sighted Government. The possession of such power might prove an irresistible temptation to use it for political purposes. Such a Bank, too, would presumably conduct its business on strictly " sound " lines, that is, of course, along the lines of orthodoxy. Credits would be issued only to producers, and the idea of issuing financial credit to consumers as such would, then as now, be regarded as foolishness by the financial " experts." And yet, without such issues, direct or indirect, " market-topheaviness," unemployment, enforced export and economic wars would continue in their present seemingly inevitable cycle.

Credits for Export. The second Credit-Scheme, which is the one at present favoured by the Government in an endeavour to ameliorate the situation along orthodox lines, is to borrow and issue financial credit for the purpose of enabling our manufacturers to export their wares to such foreign countries as cannot at present afford to buy from us. The proposals involve the pledging of the Public Credit—to whom ? To the Bankers and Finan-

(g) See *supra*, pages 27 and 28.

ciers. For what purpose ? In order that our factories may continue to produce goods. For whom ? For the foreign buyer. It is superfluous to point out that the Credit-manipulators will receive ample interest for their valuable assistance ; but what of the great mass of the Community whose credit is pledged ? How will they benefit ? The newly-created financial credit will, *if the scheme be ever taken up seriously*, be paid out in this country as wages, salaries, dividends, etc., entirely unrepresented by goods on the home market. The purchasing-power so paid out will represent pure inflation, and, being unaccompanied by any method of price-control, will inevitably entail a rise in prices. Any diminution that may be effected in the prevailing market top-heaviness will be of merely temporary duration. To which must be added the further consideration that those exported goods being in fiercest competition with similar products of other industrial communities, will help to bring a little nearer the next great economic war (h).

The Marxian School. It would be impossible to omit from this Chapter all reference to two other schools of thought that exercise a not inconsiderable influence at the present time. The school that is favoured by many Labour economists of the more extreme

(h) See "The New Age" for November 3rd, 1921.

type is that of the followers of Karl Marx. Yet, in truth, whilst it denounces, and rightly, with bitterest invective, the social and economic conditions of this present industrial civilisation, this school seems to offer no constructive solution for its many problems. A friend of the writer's was quite recently confronted by one of Marx' more vehement disciples. After listening for some time to a heated denunciation of the prevailing state of affairs, he naturally enquired what remedy was advocated by Marx and his followers. "First of all, the "proletariat must be educated in class-con-"sciousness," was the reply. "And then ?" "Then will come the Revolution." "And then ?" "Then, as a temporary measure, the Dictator-"ship of the Proletariat." "And then ?" No reply. Then, of course, having waded through blood and sorrow to proletarian dictatorship, the Community—or what was left of it—would be faced with the same problem it has to meet to-day. In other words, there would still be men and machinery, producers and consumers, and the same economic problem of production, distribution and consumption. Far better face this question now than, having undergone all the horrors of internecine strife, find it still awaiting solution at the end.

A Change of Heart. The other school of thought holds widely different views. It would teach us that the need of the industrial world to-day is a Change of Heart and unlimited Goodwill. Such would often seem to be the message of the Industrial Christian Fellowship, and kindred associations. But a change of heart without a change of economic conditions is powerless to avert industrial collapse. There is any amount of goodwill and reasonableness existing to-day between masters and men, but no amount of goodwill unattended by economic reform will, for instance, enable an industrial community to absorb all its own production, nor remove the economic necessity for export, with its attendant dangers. A change in the economic system attended by general goodwill may yet prove the salvation of civilisation ; Goodwill and a Change of Heart by themselves can effect nothing permanent.

Such, then, are the principal remedies variously offered for the cure of the economic malady of Industry. None is adequate ; few are even alleviatory ; some are frankly worse than the disease they profess to cure. We have seen in each case some of the reasons why this is so. Now at last we are in a position to examine the Social-Credit Proposals of Major Douglas, and to see whether they, in their turn, afford the remedy the industrial world to-day so urgently needs.

Part III.

Some Constructive Principles and Proposals.

CHAPTER SIX.

THE SOCIAL CREDIT PRINCIPLES.

(1) The Just Price.

CHAPTER SEVEN.

THE SOCIAL CREDIT PRINCIPLES.

(2) National Dividends.

CHAPTER EIGHT.

THE PRACTICAL APPLICATION.

CHAPTER NINE.

THE INTERNATIONAL ASPECT.

CHAPTER VI.

The Social-Credit Principles, (1). The Just Price.

Major Douglas' constructive proposals are based upon two outstanding principles,—first, the Just Price, and secondly, National or Communal Dividends. Of each in its turn, and first with regard to

THE JUST PRICE.

The Just Price. We have already seen (a) that *to enable an industrial community to benefit by an extension of productive capacity, such extension must be accompanied by an equivalent expansion of purchasing-power in the hands of consumers; otherwise the increased productive capacity acts not as a stimulus to but as a clog on industry.* At the conclusion of a previous Chapter (b) we saw that the community as a whole would receive most benefit from an influx of new purchasing-power if it came in the form of reduced prices—if, in fact, new financial credit were issued to Producers to reimburse them for selling "under cost." And so we found ourselves face to face with this vital question: In a community whose financial system is based on Real Credit, what is the Just

(a) *Supra*, page 43.

(b) Chapter IV., at pages 63 and 64.

Price of an article to the Consumer? Or, in other words, what proportion of the production-cost of an ultimate commodity should be borne by the Consumer, and how much refunded to the Producer out of newly created financial credit?

The Price-Factor. In "Economic Democracy," Chapter X., and "Credit-Power and Democracy," Chapter XII., Major Douglas has approached this question along somewhat technical lines. Perhaps, however, the very simplest method of approaching the problem of the Just Price is as follows:—If in the course of any accounting period the gross production of Communal Real Credit be represented by, say, 10, and the simultaneous gross consumption thereof be represented by 8, then it is clear that the nett appreciation of Communal Real Credit during that period must be represented by 2. The total Real Benefit (if we may temporarily so term it) received by the Consumers as such is, undoubtedly, the total Real Credit absorbed during the period under consideration, namely 8. The total Real Benefit received by the Community as a whole, apart from the individual Consumers (i.e., the nett increase in its Real Credit) is, in these circumstances, 2. It is submitted, therefore, that under the given conditions, any price paid to the Producers for their commodities (that is, production-cost, including profit), should be borne, as to 8 parts thereof by the Consumers, and as to the remaining 2 parts thereof by drawing on the credit of the Community as a whole. In other words, 8/10ths of the selling-price of an article should be borne by the Consumer, and the remaining 2/10ths credited to the Producer by the Treasury on behalf of the Community in its entirety. It is, of course, superfluous to point out that there is no peculiar virtue in the numbers eight and ten. The result is a perfectly general one, and the conclusion reached may be enunciated thus: *In a Community wherein the Financial System is based on Real Credit, the Just Price of an article to a Consumer bears to the cost of its production the same ratio as does the Gross Depreciation of Communal Real Credit bear to the Gross Appreciation thereof.* This ratio we will henceforth refer to as the Price-Factor.

$$\frac{\text{Just Price}}{\text{Cost Price}} = \frac{\text{Total Consumption of Real Credit}}{\text{Total Production of Real Credit}} = \begin{matrix}\text{Price-}\\\text{Factor}\end{matrix}$$

An Illustration. Major Douglas would, then, have us break away finally and completely from any pretence of maintaining a gold standard for our monetary system, and, having done so, regulate the price of each ultimate commodity (c) to the consumer at a figure arrived at by multiplying the cost of its production (which would include a fixed percentage of profit for the producer) by the price factor as just defined. Intermediate products

(c) See *supra*, page 39.

would be priced, as to-day, at something over the bare cost of labour and materials, which something would, however, be limited to a fixed percentage by way of profit. In our hypothetical community in Chapters I. and IV. (d) the gross decrease in the Communal Real Credit bore to the gross increase therein the ratio of 8 to 10. The price-factor for the period would therefore be 4/5, and the Just Price of an article to the consumer would be 80% of the production-cost. The £800,000 gross decrease in Real Credit represents the production-cost (including capital depreciation) of all goods consumed, and therefore either immediately or later appears in prices. Were the Social-Credit Proposals in force, the Consumers would be called upon to pay 4/5ths of this sum, that is, £640,000, while the remaining £160,000 would be refunded to the producers by means of new Treasury Issues of credit and currency, based upon and backed by the £200,000 worth nett increase in the Community's Real Credit.

Inflation. It is, however, perfectly true to say that whenever there is any suggestion of making an issue of paper money, however regulated and safeguarded, the bugbear of Inflation is conjured up in one form or another. Financiers and so-called experts point to the diminished value of the Russian rouble,

(d) See *supra*, pages 10 and 60.

and in well-feigned alarm cry out, "See what paper money leads to!" And the general public, gulled by a blind or servile Press, re-echoes the cry. But, as Mr. Arthur Kitson has pointed out in his treatise entitled "Unemployment, the Cause and a Remedy" (wherein he advocates Douglas' proposals as a solution of the unemployment problem), "Russia's experi-
"ence with paper money has no more to do
"with these proposals than the act of drinking
"a glass of water has to do with the act of
"committing suicide by drowning. . . . The
"Russian paper-money was used, as Lenin
"admitted, for the purpose, not of assisting
"trade, but of destroying it, and of getting rid
"of what they term the 'Capitalistic Financial
"System.' *It is one thing to issue currency for*
"*the purpose of assisting trade; it is quite*
"*another thing to issue currency for the purpose*
"*of destroying it.*" (e)

No "Inflation" under Social-Credit Proposals. By Inflation, presumably, is understood a rise in the general level of prices brought about by an undue expansion of money in relation to goods on the market. But if the principle of the Just Price were adopted no such inflation could possibly occur, for the following, among many other excellent reasons: (1) The periodical issues of financial credit from the

(e) At page 83.

Treasury would merely represent in money the expansion in the capacity of the community to deliver Goods and Services since the last issue. (2) Such issues, far from increasing prices, would be a means of reducing and maintaining them below cost of production.

Legal Tender and Bank Credit Issues. There is one source of monetary expansion, however, to which the adoption of the Social Credit Proposals might possibly expose the Community, although it is not quite easy to see how, with scientifically regulated prices, such expansion could entail any undesirable consequences. At the present day, if there is an abundance of legal tender in circulation (be it paper or gold), the Banks are in a strong position for the issue of credits (f). For instance, during the late War, the Government felt itself obliged to borrow vast sums from the Bankers (g). In order to enable the Banks to give this accommodation without exceeding their so-called "margin of safety" (h) the Government issued paper money as legal tender to strengthen the Bank Reserves. This paper money would not have been required had there been no need to extend the total of Bank Credits, nor would such fresh issues of Bank Credit have been safely made had there been no increase

(f) See *supra*, page 59.
(g) See *supra*, page 26.
(h) See *supra*, page 23, and *infra*, page 113.

in the amount of legal tender in circulation. It may therefore be raised as an objection to the foregoing principle of the regulation of Prices "under cost" and the reimbursement of Producers by newly created credits issued by the Treasury, that, even if the amount so issued were itself justified by the Real Credit Increment within the Community, such an issue would almost inevitably be made the basis of a quite unjustifiable expansion of Bankers' Credit.

Avoidance of an Undue Expansion of Bank Credits.

In reply to this very plausible objection there are one or two points that may be raised. First, it is hard to see how the general level of prices could rise if regulated at a percentage of production cost, and the jungle law of Supply and Demand replaced by a scientific price-law based upon the productive capacity of the Community. Next, as we shall see when we come to consider the suggested machinery for the operation of the Social-Credit Principles (i), these reimbursements to producers would generally take the form of the issue of new financial credit (as distinct from currency), or the cancellation of prior indebtedness. Indeed, the issue of new legal tender would be the exception and not the rule, and would be made only to suit the convenience of the public. If, however, an undue expansion of Bank Credit were still regarded as a danger,

(i) *Infra*, Chapter VIII.

there would seem to be no valid objection to placing some legal limit on the power of the Banks to issue financial credit. This might be done by retaining their present legal liability to exchange such credit for legal tender upon demand, or even by fixing some reasonable maximum amount beyond which Banks might not issue financial credit uncovered by legal tender in their possession (j). If some such precaution were taken, it is submitted that fresh issues of financial credit by the Treasury could only increase the total amount of money in circulation by an amount justified by the simultaneous increase in the Community's Real Credit.

The Psychological Effect. The psychological effect of price-regulation along the lines suggested by Major Douglas is highly important. If, for instance, owing to the expansion of purchasing-power, there was temporarily a marked increase in the community's consumption unaccompanied by any corresponding increase in its production, then (as the price-factor varies directly as the total communal consumption, and inversely as the total communal production), prices would automati-

(j) It may be objected that this entails relating credit to currency, and is therefore unsound. It is, however, submitted that as the Treasury would still be free to issue, and would issue, all new financial credit justified by increased Communal Real Credit, the precautionary restriction of the power of the Banks to issue new financial credit would not in any way relate the total amount of financial credit within the Community to the amount of legal tender in circulation.

cally increase until this disproportionate consumption was checked. Whilst it is clear that in practice the price-factor for any accounting period would have to be determined from the statistics of some previous period, the general psychological effect would, of course, be the same. It would quickly be realised that increased production without a similarly increased consumption was followed by a general lowering in the level of prices, and that increased consumption unaccompanied by a corresponding increase in production entailed a general rise in the level of prices. Which is exactly as it should be. There is then an incentive to greater production at the lowest possible cost, and for a sufficient though moderate consumption. Moderation in consumption, however, would not then be due to a lack of purchasing power on the part of the Community, but to a sane realisation of cause and effect.

Unemployment. Such, then, are the Social-Credit Proposals with regard to Price Regulation. Accompanying and equivalent to the steadily expanding capacity of the Community to meet demands upon it, there would flow into the Community by this means, a mechanism for making these demands effective. It has been the endeavour to lay the bogey of "inflation" that rears its head whenever these proposals are first considered, and it may now be well to spend a moment or two in considering what effect the application of this portion of Major Douglas' proposals would have with regard to the most vital problem of the industrial world to-day, that of Unemployment.

An Inherent Feature of The Present Economic System.

"*Unemployment*," said "The Times" in a leading article, "*is* "*an inherent feature of the Eco-* "*nomic System.*" (k). The truth of this statement is unhappily only too apparent. Given the above premises, it would naturally occur to anyone unacquainted with newspaper economics that the obvious duty and interest of everybody was to cast about for some other system to replace this present one—a system whereof compulsory unemployment was not an inherent feature, or wherein, at any rate, its ugly consequences were eliminated. Not so, it seems; the article continued to fill up a platitudinous half-column with counsels of acquiescence in the inevitable, coupled with exhortations to work harder, to consume less, to beware of inflation, to do anything, in fact, except breathe against the established order of things. It is too sacred. And this although "The Times" realised that so long as the present Economic System endures, so long will Unemployment and its attendant miseries continue. Temporary alleviations may

(k) See "Times" Leading Article dated Sept. 30th, 1921.

occur. Total eradication is impossible. How can it be otherwise?

Revitalising Industry. Let us now take a flight of fancy, and let us suppose that by some means or other every member of the Community were suddenly to find himself or herself possessed of £10 more than he or she had a moment before. What would be the effect on Industry? Human nature being what it is, prices would of course tend to rise until all this extra spending power was absorbed (1). But suppose that it was found possible in some way to prevent prices from rising, what then? The money would be spent on what its recipients, wisely or foolishly, desired. However spent, the effect would be an immediate and substantial diminution of the stocks at present carried by retailers. Orders would flow thence to the wholesale houses. The wheels of industry would speed up. More men would be taken on. More money would flow into the Community as wages. Unemployment would be substantially reduced.

By the Just Price. But, of course, as things are at present, prices would rise. Suppose, however, that instead of increasing each individual's money by £10, the Government declared that if prices were reduced to a fixed percentage of production-cost they would refund

(1) See *supra*, Chapter IV., at page 63.

the difference to the producers: suppose, in other words, that the Social Credit Principles, so far as they relate to the Just Price, were adopted,—what then? Prices would drop immediately, but there would not necessarily or even probably be any corresponding drop in wages. Each unit of money flowing into the pockets of the individual members of the Community would purchase more. Stocks would gradually be cleared, and in a little while Industry would be employing many more than its present normal quota (m). Since the incentive to produce on the part of the worker would be no longer countered by the fear of undue profits being made at his expense by his employer, the increased demand would lead to a fuller utilisation of our present capacity. It is true that to some extent the nature of the demand might modify the type of commodities turned out, but this effect would probably be wholly beneficial. There would be less energy devoted to the production of armaments, as the gradual conversion of our capacity to consume more at home into an effective demand removed the artificial, though at present very real, necessity to fight for foreign markets. On the other hand, there would certainly follow increased attention to agriculture, and a real effort to stimulate it and assure its position as a national industry. But, however the changed demand modified the

(m) As to the proper figure for the first price-factor, see *infra*, Appendix "A," at page 147.

nature of the goods produced, the immediate effect of the application of the principle of the Just Price would be to offer more and more chances of employment, and, with employment, remuneration that could procure for the recipient far more in the way of goods and services than he can ever hope to obtain to-day.

National Dividends. This much is clear, however, that even if by the means just indicated unemployment could be very materially reduced, and the standard of living raised all round, our factories could and would cope with the entire demand without employing the whole available man-power. There would still be, and there must always henceforward be, some for whom Industry has no place; but there is no ethical or necessary reason why compulsory unemployment should bring in its train the ugly consequences we see on all sides to-day. It is to meet, in particular, the case of those not directly engaged in production, and in the interests of communal justice in general, that Douglas enunciates his second principle, that of National Dividends (n).

(n) See *infra*, Chapter VII.

CHAPTER VII.

The Social-Credit Principles, (2), National Dividends.

Inadequacy of the Wage System. The inadequacy of an unsupplemented wage system to meet the requirements of a modern progressive industrial Community becomes more apparent every day (a). The object of the application of Science to Industry is the production and distribution of goods and services for the use and enjoyment of mankind with the minimum expenditure of human energy; and as the years pass, and scientific invention and discovery succeed still further in replacing human energy by the power of machines, increasing unemployment will render an already inadequate system more and more so. So much the more necessary does it therefore become with every advance made in this direction to devise some means of distributing purchasing-power to those for whom Industry has no longer any need.

The Dividend System. Among the many outward and visible signs of the gradual, if mainly subconscious, recognition of the inadequacy of the wage system at the present day, may be instanced the seeming

(a) See also *supra*, pages 12 and 13.

anomalies of Old Age Pensions and Unemployment Relief. The former, in particular, is in effect nothing other than a system of conditional National or Communal Dividends, in that the right to receive an Old Age Pension is based on membership of the Community alone, and not on work done or services rendered (b). As it is, many people to-day derive their whole income from dividends of one sort and another. It may, indeed, be affirmed with confidence that the natural and logical partner of the wage system is some system of dividends, distributed to the members of the Community as such, and entirely independent of their remuneration for work done or any other exterior consideration. On grounds of expediency alone it must be admitted that some such supplementary system is eminently desirable. But the objection, heard on many sides to-day with reference to the pecuniary relief of unemployment distress, that it amounts, actually or virtually, to "something for nothing," and is therefore immoral, is sure to be raised sooner or later in this connection also. It may therefore be well to point out at once that not only is some system of National Dividends eminently desirable, but that it is, in addition, ethically justifiable in principle.

(b) The fact that receipt of a pension is subject to certain arbitrary conditions as to the age and means of the recipient has no bearing on the fact that the only title to such pension is membership of the Community.

The three Factors in Industry. (1) Capital. (2) Labour. (3) Common Cultural Inheritance.

Production by Industry to-day is the result of the combined effort of three distinct factors. There is, in the first place, Capital, the immediate provider of plant and machinery. Secondly, there is Labour, the provider of mind, muscle, and human energy in the widest sense. Thirdly, there is the Common Cultural Inheritance of the Community. If it be asked what exactly is implied by the term "Common Cultural Inheritance," we cannot, perhaps, do better than quote a few words from a brochure issued by the Manchester Credit Reform Group. We read therein how "Science has lengthened the arm of man, "and has strengthened his fist. It has enlarged "his eye and extended his ear. He can throw his "voice across an ocean or a continent, and his "body through space. The power of a thousand "horses is at his command by the opening of a "valve. Wealth production is made so easy by "machinery, that the human-labour factor de-"creases daily. . . . This is our real heritage "as against that of the cave-man." (c) Our inheritance is, however, greater even than this. It comprises ordered government, industrial, social, and political organisation, education, religion, and the hundred and one amenities of

(c) "Socialisation of Credit," page 9.

civilisation. These collectively form what we have called the Community's Common Cultural Inheritance. Capital without Labour is impotent. Labour without Capital is practically powerless. Machinery, mind and muscle, apart from the Common Cultural Inheritance, would be disorganised and inefficient. But who can fail to have noticed that our unhappy industrial disputes almost invariably turn upon the division of profit between Capital and Labour, and that the share due to the Common Cultural Inheritance is forgotten or disregarded ?

Morality of National Dividends.

Common Cultural Inheritance—who, then, are the heirs ? The heirs to this splendid heritage are the members of the Community as such. The individual members of the Community are interdependent, and every member is co-heir to the Common Cultural Inheritance of the whole. So much is this the case that it is, strictly speaking, impossible for any one man to be said to be the sole creator of even "his own" idea or invention. He has merely manipulated mentally the inventions and ideas of a hundred others. The members of the Community, as such, as well as Capital and Labour, are justly entitled to a share in the produce of Industry. Now it is quite true that the Community comprises both the Capitalist and the Worker, and in so far as an indivdual member of the Community is also a member of one or both of the other partners in production, his or her share as a member of the Community should be additional to his or her share derived from that other source. But there are certain members of the Community who can claim to belong to neither of the other two groups, and such members should in common fairness receive at any rate such just proportion of the increased Real Credit of the Community as is due to them as inheritors of the discoveries, inventions, culture, civilisation, order, thought, and accumulated resources of the past. Finally, as Douglas maintains in his preface to "Credit-Power and Democracy," (d) ethically speaking, "*That is moral which works best.*" If this be true, then, indeed, it is the present economic system which is frankly and flagrantly immoral.

Necessity for National Dividends. And so we look forward to the time when every member of the Community as an individual shall, apart from and in addition to his or her remuneration as a producer, receive, as a matter of course and of right, his or her Communal Dividend—his or her proper share in the increase in the Real Credit of the Community as a whole. *National Dividends as such should be distributed irrespective of whether the recipient is employed or not, or of his or her financial status.* At the

(d) At page vii.

present day, as a matter of economic necessity and political expediency, there are distributed, out of the proceeds of taxation, weekly "doles" to persons who are out of employment, with the manifestly evil result that a man is penalised by the cessation of his Government grant directly he begins to earn a wage. There is thus afforded to him a direct incentive to remain unemployed. At the present time also, it must be borne in mind that the amount distributed in unemployment relief bears no necessary relationship to the capacity of the Community to pay it, but is the minimum amount required to keep the unemployed from open revolt. Unemployment pay to-day is, in effect, a kind of National Insurance against the evil effects of the present economic system, and the tendency is, of course, to keep the premiums as low as possible. Under the Social-Credit Proposals, the aggregate amount distributed in National Dividends, to employed as well as to unemployed, would be directly proportioned to the Community's ability to pay, and it would therefore be to the direct advantage of every member of the Community to increase this ability.

Benefits of National Dividends. In his brochure, "The Cure for "High Prices," H. M. M. has touched upon further substantial advantages that would accrue from the adoption of a scheme of National Dividends paid to each member of the Community as such. He writes: "The possession of a right to an "income as a member of the Community by "every man, woman and child, apart from what "they earn by their labour, would solve several "difficult problems. It would put the family "man on an equality with the bachelor: it "would make women financially independent "of their male relatives, and enable them to "choose their way in life and their partners in "marriage free from ulterior considerations, "besides testing the strength of their professed "desire to remain in industry. It would pro- "vide for the case of the widow and orphan, "the sick, the helpless and the aged, as well as "for the man of genius who does not fit kindly "in to the economic structure, and for many "more. In addition, it would put everyone in "the strongest possible position to resist tyranny "from whatever quarter it might threaten."

Financing National Dividends. Here the question very naturally arises: "Where, then, is the money "necessary to pay such Dividends "to come from?" Major Douglas' reply to that question is that National Dividends could and should be financed out of the increasing Real Credit of the Community. They might be made, as are wages, salaries, and dividends to-day, a charge upon Industry, appearing as a further item in production-cost. For instance, the periodic contribution towards National Dividends made by each industry might be fixed at some definite, though strictly moderate, percentage of the capital invested in that industry. It is not, however, proposed at this juncture to examine in any detail the possible or probable methods of financing National Dividends. This can better be deferred until we come to deal with the means and methods suggested for carrying the Social-Credit Principles into effect.(f) *All that is aimed at for the present is to render acceptable the principle of dividends for all members of the community as such, and to suggest that there do exist feasible methods of financing the same out of the Community's Real Credit, without adding to the load borne by the taxpayer to-day.*

A New Incentive. In this connection, however, it is necessary to point out that, far from being an added burden upon Industry, the application of such proposals would provide a distinct incentive to further industrial progress. As the Community's productive capacity increased, the amount available for periodic distribution as National Dividends would increase also. Those engaged directly in production would receive, then as now, remuneration for their work in the form of wages or salaries, in addition to and quite apart from their dividend. As pointed out by Mr. Allen Young in his

(f) See *infra*, Chapter VIII. at pages 117, 118.

pamphlet entitled " Dividends for All "(g), wage-earners are at the present time admittedly hostile to the introduction of labour-saving methods and devices, since the tendency of such is to take away employment, whereas to-day it is practically only through employment that the majority of the population have purchasing-power distributed to them. But if each addition to the productive capacity and efficiency of the Community were accompanied by an increase in the amount available for distribution as National Dividends, there would no longer be any ground for this hostility. Undeterred by the fear of causing wide-spread misery through unemployment, Science could then proceed apace towards the industrial emancipation of mankind. Gradually, too, the need for unemployment doles,—baneful anomalies that they are,—would diminish, until eventually they were banished, together with slums and sweated labour, into outer darkness.

Economic Development. The application of the Social-Credit Principles would plainly found our economic system upon a Real Credit rather than on a pseudo-gold basis. But this would cause no sudden break in the continuity of economic development. Rather would it be a scientific moulding of natural economic tendencies. In the infancy of the human race, the economic system rested, mani-

(g) At page 24.

festly, upon a barter basis. Goods and services were exchanged directly for goods and services. In course of time, as Society evolved, it was found more convenient to effect exchanges by means of currency tokens. Such tokens were things desirable in themselves—hides, plumes, coloured stones, cattle—anything, in fact, sufficiently rare to be valuable and at the same time sufficiently common to be adequate to the needs of primitive commerce. This marks the second stage of economic development. It is the stage reached to-day by those who hanker after a return to a gold basis for our currency and economic system as a whole. The notion that money could have value apart from the intrinsic worth of the token itself is of much later origin. The third stage was reached when, with expanding trade and development of ideas, there entered into economic life a new factor, and it gradually became realised that a medium of exchange need not be in itself a thing of value, so long as attached thereto was a certain something, which we to-day know as Credit. Tokens, valueless in themselves, began to be accepted in exchange for goods and services simply because, attached to each such token was the belief that, by its means, other goods and services might be procured. It was immaterial of what these tokens consisted. The notched stick and the modern Treasury Note are equally good examples of the intrinsically valueless token being recognised as valuable because of the Credit attached thereto. So long as such tokens are accepted as title to goods and services, they are money.

Bank Credit. The issue of "money" has from the earliest times been the prerogative of Government. But with the advance of Industry and the extension of Commerce, there was felt keenly the need for a still more liquid medium of exchange, or, more correctly, of Credit. This need was in due course supplied by the Banking Houses. Thereafter, in addition to the legal tender issued by the sovereign authority, there came into circulation a mass of credits issued by private persons and firms, fostered by which trade prospered exceedingly. These new credits, which we shall hereafter refer to as Bankers' Credits (h), were matters of book entry, and it has to-day become a usual and convenient practice to pay debts and settle accounts by means of mere transfers of such credits in the books of the Bank. With expanding Commerce and Industry, there has been a corresponding expansion of Bankers' Credit, until to-day the aggregate amount of such credit in circulation in this country is between five and six times the total amount of legal tender. To this extent, then, have the Bankers usurped the functions of Government.

(h) For a more detailed consideration of the Subject of Bankers and Credit, see *supra* Chapter II.

The power of Credit-Issue and Credit-Restriction is in private hands, while Bankers' Credit, not Legal Currency, is becoming more and more the life-blood of industry. (i)

The Logical Development. There would seem to be but one restriction to the amount of Bank-Credit that may be put into circulation at any one time; that is the statutory liability of the Banks to pay out legal tender in exchange for their own Credit when called upon to do so, which liability in effect restricts the total amount of Bankers' Credit to a certain number of times the total amount of legal tender simultaneously in circulation. The Bankers must, in fact, preserve a kind of safety limit. But the *raison d'etre* of Financial Credit being the proper distribution and utilisation of Real Credit, it would seem an absurd restriction to limit the amount of such credit, not by the needs of industry, but by the amount of legal tender there happens to be in circulation. And the absurdity is greater still if the aggregate amount of such legal tender is in its turn restricted by the amount of gold within the Community.(j) The natural and logical development of the economic situation will undoubtedly be the ultimate withdrawal of the function of credit-manipulation from the

(i) In the year 1920 the London Clearing House passed through £39,000,000,000, representing transfers of pure Bankers' Credit.

(j) See *supra*, pages 58, 59 and 60.

Financier and Banker, and the regulation of the issue and, if necessary, the restriction of Credit automatically with the needs of Industry—that is, by the simultaneous increase or decrease in the Communal Real Credit. Expanding Industry and Commerce will then be nurtured by expanding Financial Credit, unhampered by artificial and irrelevant restrictions. As part of, and quite auxiliary to such credit, there will be placed in circulation such amount of currency —which Douglas aptly terms "the small change of credit"—as might be deemed generally convenient. And finally, with automatic credit-expansion there must be correspondingly automatic price-regulation (k).

A Step Forward. In this way, then, would the adoption of the Social-Credit Principles assist the logical development of economic tendencies. In place of the present-day system, under which financial credit is virtually a monopoly serving private interests, there would arise a financial and economic system under which financial credit was directly controlled by the consumers in the interests of the Community as a whole. The amount of financial credit in circulation would tend more and more to become an accurate reflection of the National Real Credit. Economic development would have been carried another step forward.

(k) See *supra* pages 62 and 63.

CHAPTER VIII.

The Practical Application

"Machinery." It is obviously not to be expected that proposals embodying the principles of the Social Credit Movement can be operated without some appropriate machinery; but, considering how these principles strike at the very roots of the present industrial and economic malaise, it is remarkable how unobtrusive and simple are the means needed to carry them into effect. It has, however, never been Major Douglas' aim or intention to dictate how his principles ought to be materialised: such matters of administration are probably better left to those to whom it would fall to work the Scheme when once the principles themselves had been adopted; and *it must therefore be clearly understood that the following pages attempt to shew, not how the Social Credit Proposals must be applied—not even how they ought to be applied—but how they very well could and might be applied.* When once the principles themselves have been approved, that form can be adopted for their application which seems best fitted to achieve the end in view.

Producers' or Industrial Banks. Perhaps the most convenient and effective method so far suggested is the creation of Producers' or

Industrial Banks. Each such Bank would be connected with some particular industry, be it that of Mining, of Ship-building, or of Agriculture, and would be affiliated to the Bankers' Clearing House in the same way as are Banks at the present day. These Banks would not be run primarily with the object of gaining dividends for shareholders, in the ordinary sense of the term, but, as will shortly appear, with a different object in view. Into each such Bank would be paid all the wages and salaries due to persons connected with that particular industry, which would be duly credited to the accounts of the various recipients. Much of this money would, of course, be withdrawn to meet the current needs of the workers, but a substantial and increasing amount would remain on deposit. Now, a Bank, as we have seen (a), is an organ for the creation and issue of Financial Credit upon the security of Real Credit. By means of the money so deposited and on the security of the Real Credit of the industry itself (inherent in the ability of the workers in that industry to produce the goods and services required by the Community), the Producers' Bank would be in a position to create and issue financial credit to that industry, in precisely the same manner as do the Banks at the present day.

It is suggested that when an industry found itself in need of new capital, such new capital

(a) Chapter II., *supra*.

should be subscribed by the Bank connected with that industry jointly with the owners thereof, and that the amount subscribed by the owners should not exceed such proportion of the whole as the amount paid in dividends bears to the sum of the wages, salaries and dividends distributed to persons connected with that industry. For the sake of illustration, let us imagine an industry in which the ratio borne by dividends plus wages and salaries to dividends only is ten to one. When there arose a need for £100,000 more capital in that industry the owners or the public generally would have the right to subscribe a sum not exceeding £10,000, and the remainer would be advanced by the Bank. In this way, as time after time fresh capital was required in a particular industry, the Bank connected therewith would create and supply an increasing proportion of such capital and acquire a correspondingly increasing share in the control of its policy.

National and Industrial Dividends.

Capital credits so obtained would probably be secured by Debenture Stock bearing a fixed, albeit a strictly moderate rate of interest. Some definite proportion of the interest payable on the amount advanced by the Producers' Bank would be periodically credited to the Producers' Bank concerned, while the remainder, possibly one-half or three-quarters of the total (which proportion could, however, be settled or adjusted from time to time by Act of Parliament), would be carried to the National Credit Account. The amount credited to the Producers' Bank would be available for distribution amongst the workers in that particular industry, and as year by year the holding of each Bank in its connected industry increased, so would the amount for distribution as Industrial Dividends grow also. So, too, would the amount available for periodic distribution from the National Credit Account amongst the members of the Community as a whole, in the form of National Dividends, increase from year to year.

No Expropriation. It must be particularly noted that these objects would be attained without the expropriation of any existing capital, which it has been tentatively suggested should be guaranteed a fixed dividend of, say, 6% *in perpetuo*, and should, together with new capital invested from time to time either by the Industrial Banks or private persons, continue to enjoy the same rights and privileges as at present, except that of price-fixing. On the other hand, every customer of the Industrial Bank, that is, every worker in that particular Industry whether by hand or head, would be regarded as a shareholder of the Bank, and as such be entitled to vote at shareholders' meetings. Thus gradually through their Bank the producers themselves would acquire an effective control in the administration of their particular industry.

Consumer Control of Credit. This, at first sight, does not look at all like an approach towards our primary object, the Consumer Control of Credit and therewith of industrial and national policy. But let us consider the psychological aspect a little. We have already seen (b) that, in a community whose monetary system is based on Real Credit, the Just Price of a commodity to the Consumer is the production-cost of such commodity multiplied by the Price-Factor for the period. We have seen, too, that it is a feasible proposition for producers to sell goods at this Just Price, and for the Treasury, as the purse of the Community, to recoup by means of new financial credits the amount the producers are thereby out of pocket. What would happen in practice, then, is this: at the end of every accounting period an official calculation would be made of the ratio of National Real Credit Consumption to National Real Credit Production during that period, and the Price-Factor so ascertained would be published. The price of all ultimate commodities sold during the ensuing period would be regulated by that factor. Seeing that the direct interest of every consumer as such is to keep prices as low as

(b) Supra, page 91.

possible, it follows that if prices are fixed at a proportion of production-cost, the vital interest of every consumer is to keep down the cost of production. Every producer, that is, every individual shareholder in every Industrial Bank, is at the same time a consumer. It is therefore morally certain that the psychological effect of putting the control of the policy of Industry into the hands of the majority of the producers themselves, who are at the same time vitally interested in prices from the consumers' point of view, combined with the regulation of prices strictly in accordance with the cost of production, would tend to check any arbitrary rise in such cost of production, and would lead instead to a general lowering thereof, due to increased efficiency all round.

A Commencement. Such, then, is one suggested step towards the realisation of the Social-Credit Proposals. The formation of Producers' or Industrial Banks is a suggestion particularly interesting in that it is suitable for application to a single industry or group of industries by way of making a start. One of the outstanding merits of the Social-Credit Proposals is that it is not at all necessary to convert the whole world to one way of thinking before they can be carried into effect. *One* country—a single Industry—can be selected as a commencement. Nor is it suggested that the proposals need necessarily be applied to each industry in an identical manner. Major Douglas has, however, worked out in some detail a draft Scheme for application to the Mining Industry (c) which the reader is recommended to consider carefully, together with the full and most lucid commentary thereon by Mr. A. R. Orage (d).

Regional Clearing Houses. An alternative method which has been suggested would entail the establishment of what we may, for want of a better term, call Regional Clearing Houses. To this end the country might be divided into convenient areas—the precise extent of which is immaterial at this juncture—and in each of such areas might be set up one such House. These Clearing Houses would have a double function to perform: they would be responsible for the issue and administration of financial credit within their respective areas, and they would collect the statistics necessary for the calculation of the Price-Factor. In addition to these Regional Houses, it might also be necessary to establish one Central Clearing House for purposes of co-ordination (e).

Hypothetical Illustrations: Manufacturers. In his first work, "Economic Democracy" (f), Major Douglas has sketched out how such a Clearing House System might operate

(c) See *infra*, Appendix "B," page 153.

(d) "Credit-Power and Democracy," pages 147 *et seq.*

(e) It is necessary not to confuse these Clearing Houses with the present Bankers' Clearing House mentioned above (page 116)—an entirely different institution.

(f) At pages 130 *et seq.*

in practice. His illustration is, of course, merely hypothetical, shewing how such a System might, but not necessarily would be worked. "Let us "imagine," he says, "such a Clearing House to "exist, and endeavour to analyse its operations "in respect to Messrs. Jones and Company, who "tan leather, Messrs. Brown and Company, who "make boots, and Messrs. Robinson, who sell "them; and let us further imagine that all "these undertakings are run on the basis of a "commission or profit on all labour and salary "costs, an arrangement which is, however, quite "immaterial to the main issue. Messrs. Jones "receive raw hides of the datum value of £100, "which require semi-manufactures value £500 "to turn out as leather, together with £500 in "wages and salaries. Messrs. Jones order the "hides and semi-manufactures by the usual "methods from any source which seems to them "desirable, and on receipt of the invoices turn "these into the Clearing House, which issues a "cheque in favour of Messrs. Jones for the total "amount of £600, by means of which Messrs. "Jones deal with their accounts for supplies. "The Clearing House writes *up* its Capital "Account by this sum and by all sums issued "by it. The out-of-pocket cost to Messrs. "Jones of their finished product is, therefore, "£500. Let us allow them 10% profit on this, "and the cost, plus profit, at the factory under "these conditions is £550, and a sum of £600 "remains owing to the Clearing House. Messrs. "Brown, who require these hides for bootmaking, "order them from Messrs. Jones, and other "supplies from elsewhere amounting to £500, "and similarly transmit Messrs. Jones' invoices "(which include the sum advanced by the "Clearing House) with the rest to the Clearing "House, which issues a cheque for £1,650 to "Messrs. Brown, who pay £1,150 to Messrs. "Jones, who in their turn retain £550 and pay "back £600 to the Clearing House" (which at "once writes down its Capital account by that "amount). Messrs. Jones are now disposed of. "They have made their own arrangements in res-"pect of quantity of labour, etc., and have made "a profit of 10% on the cost of this labour."

Three Comments. At this juncture it may be well to make three more or less parenthetical remarks. In the first place, the cost of intermediate production would, under such a system, be covered by a loan from the Community as a whole, which loan must be repaid directly the article is sold. Secondly, such a system as here described would need no new method of costing on the part of Messrs. Jones, but it would entail the necessary consequence that their books of account would have to be open to official inspection. This object might easily be attained by admitting to the privileges of the system only those firms that were registered in the books of the Clearing House, and making such registration conditional on submission of all the firm's costing and other books of account to the periodical inspection of the Clearing House auditors. The third point worthy of comment is this: as Messrs. Jones in our illustration are allowed as profit a fixed commission on the wages, etc., paid to labour employed by them, it might be thought that there would be strong inducement to them to pay extravagant wages and salaries in order to obtain greater profit. But there are, it will be remarked, three equally strong incentives against such a policy. (1) Messrs. Jones and their employees know full well that as ultimately price is regulated strictly according to cost of production, it is advantageous to them as consumers to keep the cost of production as low as possible. (2) Messrs. Jones have to face the competition of other persons and firms in a similar line of business to their own, and in order to induce Messrs. Brown's custom, they will naturally strive to keep down factory costs. (3) The fact that their books are open to the inspection of the officials of the Clearing House, upon which they depend very largely for a continuance of credit facilities, would doubtless act as a stringent check upon any action that seemed to run counter to the public interest.

Retailers. To continue our hypothetical illustration. Let us suppose that Messrs.

Robinson are a firm of retailers, registered with the Clearing House of their particular area. They order boots from Brown and Co. at an invoice value of £2,200. This invoice they turn into the Clearing House, and receive therefrom a cheque for that amount, with which they pay Brown and Co., who, in their turn, cancel their indebtedness to the Clearing House. As registered retailers, Robinsons would probably be restricted to a fixed commission of, let us for the sake of our illustration say, 20%. This commission, we will assume, has to cover all wages, salaries, purchases from other retailers, and in short, all selling expenses as well as profit. Therefore Messrs. Robinson are at once able to calculate the Basis-Price (as we will term it) of the boots just bought from Messrs. Brown, namely £2,200 plus £440 (the 20% allowed for selling expenses and profit), making in all £2,640. Knowing, then, the Basis-Price and the Price-Factor for the period, Messrs. Robinson are immediately aware what is the Just Price of the goods—the price they are permitted to charge to the public (g). By the time that Messrs. Robinson have sold the whole consignment, they will (supposing the Price-Factor for the period to be 4/5) have received four-

(g) It is suggested by Mr. Allen Young at page 24 of his pamphlet "Dividends for All," that a retailer might be permitted to sell at some higher price if he could find a market, receiving from the Clearing House only sufficient financial credit to balance total price received with total Basis Price. With all due deference, however, it is here submitted that if the consumers are to receive the fullest benefit, the Just Price must be regarded as a maximum, and charges in excess thereof illegal.

fifths of the £2,640, that is £2,112, from consumers in prices, while the remaining fifth, a matter of £528, will have been written off their indebtedness at the Clearing House upon receipt there of the necessary vouchers. There should be no more difficulty in applying for and obtaining this reimbursement of £528 than there is to-day in the submission of an extremely simple claim for the return of Income Tax. The effect of this is to leave a balance of indebtedness at the Clearing House of £1,672. But Messrs. Robinson have received from the general public £2,112 in respect of goods sold. Therefore, if they now proceed to pay off their remaining indebtedness at the Clearing House, they are finally left with £440 in hand. This is the amount, it will be remembered, allowed them for selling expenses and profit. Though the Just Price should be regarded as a maximum selling price there would seem to be no good reason why, if Messrs. Robinson were prepared to forego a portion of their permitted profit, they should not sell at some price less than the Just Price: but in that case the only reimbursement they could subsequently claim would, of course, be the £528—the difference in our illustration between the Just and the Basis Prices.

Simplicity of the Suggested "Machinery."

Perhaps at first sight it may seem that all this is rather complicated. But is it? Can it not rather be maintained with truth that the apparent complexity of the process just described arises from its unfamiliarity rather than from any intricacy in the process itself? The work of the Clearing Houses would be largely the making and cancelling of book-entries of substantial amounts, book-keeping by no means as complicated as much of that carried on by Banks to-day. Be that as it may, however, it cannot be too strongly emphasised, even at the risk of weariness, *that what the Social Credit Movement is concerned with* at present *is policy and principles, not precise form, and that when once the principles themselves have been approved, the form and method of adoption can be determined in accordance with the particular needs of the community or industry seeking to apply them.*

A Gradual Supersession. In making the above suggestions for the practical application of the Social Credit Principles, the fact has not been overlooked that the present-day financial and industrial system has developed amidst the economic vicissitudes of long years past, and that it is far too elaborate and delicate a piece of machinery to be ruthlessly cast aside and replaced in the twinkling of an eye. The dangers underlying too precipitate action are sufficiently plain to all but the most reckless or the wilfully blind. The present system must first be supplemented, and only gradually superseded altogether. But, as a first step, the inauguration of Producers' Banks, together with the application of the Just Price to some important Industry, such as that of Mining, would immediately have markedly beneficial results. As these Banks grew in financial strength, capacity and prestige, they would tend to replace the present Banks as the prime repositories of financial credit, and a monopoly of credit control by private interests would thus yield place to Consumer Control of Credit.

Results Anticipated: Finally, what would be the effect of the adoption of the Social-Credit Proposals? "It is obvious indeed "that no change of system or machinery can "avert those causes of social malaise which "consist in the egotism, greed and quarrelsome-"ness of human nature. What it can do is to "create an environment in which these are not "the qualities which are encouraged. It cannot "secure that men live up to their principles. "What it can do is to establish their social order "upon principles to which, if they please, they "can live up, and not live down" (h). We have already seen how the application of these principles, based, as their advocates believe, upon right and justice, acknowledging, as they do, the inherent interdependence of the different members of the body politic, would remove the many

(h) R. H. Tawney, in "The Acquisitive Society," at page 222.

hindrances to human progress that exist in the present financial and economic system. The problem of unemployment, for instance, ever growing more acute under the present system, would disappear under a comprehensive system of National Dividends. Again, as pointed out by H. M. M. in the brochure to which reference has already been made (i), by this method of price-regulation, the man in the street would gain an exact knowledge of the economic condition of his country ; goods would rise in price if the rate of consumption increased disproportionately to the rate of production, and vice versa. The psychological effect of this would be to afford a direct incentive to keep production well ahead of consumption. There would, moreover, be an immediate fall in the price of all commodities required by the ultimate consumer : but this fall would not be due to any lack of purchasing power on the part of consumers, nor would it entail (as is invariably the case under the present industrial system) stagnation of trade, coupled with the widespread misery that to-day accompanies wholesale compulsory unemployment. (j). More important still, there would come, at last, an end to the seemingly interminable struggles, acrimonious and wasteful, between Capital and Labour, and the transformation of the structure of Industry from a *mésalliance* of apparently conflicting interests

(i) " The Cure for High Prices," at page 10.
(j) See *supra*, page 54.

into a free union of fellow-workers, engaged in common enterprise. Finally, by increasing the effective purchasing power in the hands of consumers, the application of these principles would enable the Community as a whole to purchase and absorb, should it so desire, an amount equivalent to its whole production : there would thus be removed the present artificial economic necessity for exporting more in value (either in the form of goods or services) than the Community actually imports. External trade could then resolve itself into an unfettered and willing exchange of superfluous for needed commodities. So, with the passing of the present necessity for thrusting surplus production on to foreign markets already glutted with the goods of rival nations, there would pass also from the horizon the ever-threatening clouds of impending war.

CHAPTER IX.

The International Aspect.

Overseas Trade. In the course of the foregoing Chapters it is not at all improbable that some such argument as the following will have presented itself: "Yes, there are obvious merits and possibilities in the Social Credit Proposals. One can quite well realise that many substantial benefits would follow the application of these proposals to a self-contained community. But how would a country like Great Britain be affected? Great Britain depends so very largely upon her overseas trade; she relies upon her imports of corn for food, and of cotton for her looms; she looks to her exports of steel goods and coal, and to her services as the great carrying nation of the world, to pay for these imports. If the avowed object of these proposals is to enable an industrial community to absorb all its own production at home, how could we, here in Great Britain, pay for those things which we are bound to import?" To a great extent such a question arises from a misconception of the general aim of the proposals. There is admittedly no benefit to be gained in hampering or curtailing in the slightest degree the free interchange of commodities between nation and nation. The proposals simply aim at removing the artificial compulsion that at the present day forces an industrial community to strain every nerve in an endeavour to export goods and services to a greater value than it imports, or, as the phrase goes, maintain "a favourable balance" of trade. One of the main objects of these proposals is to make of international trade a mutually voluntary exchange of those commodities which each country has in superabundance for those it desires but cannot so profitably produce at home. For instance, Douglas Scheme or no Douglas Scheme, we here in Great Britain shall probably still require to obtain the bulk of our wheat from abroad, say the Argentine Republic (a). In return we shall still have to export the coal and steel products that Argentina needs. But the fundamental difference lies here: were the Social Credit proposals in force among us, it would only be necessary to export sufficient to pay for our imports; we should not need to be perpetually striving to unload surplus production on to Argentine markets with a modified "Your-money-or-your-life" attitude towards the native population.

(a) See, however, Kropotkin's "Fields, Factories and Workshops," wherein he declares that "if the population of this country came to be doubled, all that would be required for producing the food for ninety million inhabitants would be to cultivate the soil as it is cultivated in the best farms of this country, in Lombardy and in Flanders, and to utilise some meadows, which at present lie almost unproductive, in the same way as the neighbourhoods of the big cities in France are used for market gardening."

Imports, Exports, and the Price-Factor.

Perhaps the first point that arises in considering the international aspect of these proposals is this: In the Social-Credit Scheme of price-regulation (b) what would be the bearing of importation and exportation upon the price-factor within the community? The answer to this question is not a difficult one. When a country or a community imports a commodity, or any quantity of commodities, the capacity of that country or community to deliver goods and services is thereby increased: its Real Credit, as distinct from its Financial Credit, appreciates by the value of the goods imported. Similarly, whenever a country or a community exports goods to another, although its financial position relative to the importing country or community may be thereby enhanced, its Real Credit (i.e., its capacity to deliver goods and services) is correspondingly diminished. *Imported goods are, so far as Real Credit is concerned, equivalent to Goods Produced, while on the other hand, exported goods are equivalent to Goods Consumed.* As the Price-Factor for any period is calculated on a Real Credit basis, it follows that import must for this purpose be regarded as production, and export as consumption. Under the Social Credit Proposals, the purchasing-power of the Community expands automatically with the increased Real Credit thereof, so that an influx of foreign goods would not result (as to-day is

(b) See *supra*, Chapter VI.

most certainly the case) in aggravating the evils of existing unemployment, but would instead tend to raise the standard of living of the whole Community (c).

Price of Imports to Consumer. The price of imported goods to the ultimate consumer is our next consideration. Would these be sold at cost-price plus profit, or at what we have hitherto known as "the Just Price"? It seems logical to conclude that, as the value of imported goods is taken into consideration in determining the price-factor for any period, the price of such goods to the Consumer should be regulated by such factor, and that therefore imported as well as home-produced articles should be sold at the Just Price. Practical convenience also dictates such a course. In the first place, there are many goods not wholly imported nor wholly made up at home—(cotton goods, for instance, manufactured in Lancashire from imported raw cotton)—and were imported goods and home products to be regulated in price upon different bases, confusion would know no end. And again, the average retailer could hardly be expected to discriminate between home-products and imported commodities. When once goods have been imported into a community, they immediately, in the same way as goods produced at home, augment that com-

(c) It should be noted that under these proposals the payment to us by Germany of her treaty-obligations could safely be received in goods. Such payment would then enure, as in all sanity it should do, to the unquestionable benefit of the recipient community.

munity's Real Credit, and it is therefore logical and convenient to regulate the price of both upon the same basis.

Price of Exports to Foreign Purchaser.

And what should be the price of exported goods to the foreign purchaser? This question presents a little more difficulty. On the one hand, the matter may very well be argued along some such lines as these. When a community exports goods, as we have already seen, its Real Credit is thereby decreased. If therefore exported goods are to be treated on the same basis as goods sold for consumption at home, it is not logical nor economically feasible to charge to the foreign buyer a price less than the production-cost of those goods multiplied by the current price-factor. At the same time, any sum charged to him in excess of this minimum would be merely determined by policy, and represents so much clear gain to the exporting community. In support of which contention it may also be argued that the retailer cannot be expected to discriminate in his sales to various purchasers between those buyers who intend to consume their purchases at home and those who intend to take them out of the country for disposal abroad. Any goods, then, sold within a community by retailers should be priced without regard to their ultimate destination, or, as we have already seen, to their origin. On the other hand it may plausibly be argued that if imported goods are paid for at their full price to the foreign merchant, there is little logic in allowing him the benefit of the Just Price in his purchases from the community, unless by selling to him at such reduced price the exporting community reaps some other direct or indirect benefit. For it is quite possible to conceive the case of a foreign trader sending his wares into the community to a wholesale house at their full price, and re-buying the goods from a retailer (for re-exportation) at the current Just Price. Perhaps the logical solution of what is after all merely a technical difficulty lies here: goods, whether for export or home-consumption, would as a general rule be priced to the purchaser at the current Just Price. But in addition to such Just Price, it might be deemed expedient to charge against the foreign buyer Export Duty equivalent to the difference between the Just and the Basis Prices (d) of the goods taken out of the country. The proceeds of such Duty would be available for National Dividend distribution, or for the relief of taxation. It must be borne in mind, however, that in many cases it might be considered commercially or politically expedient to remit some or all of this Duty where circumstances afforded adequate safeguards against abuse of the concession (e). As, in any

(d) See *supra*, page 125.

(e) See also "Dividends for All" at page 23.

case, in any industrial community adopting the Social Credit Proposals, low production cost would tend to become the aim and interest of producers and consumers alike, it seems certain that it would soon be possible to cope with foreign competition, wherever and whenever it was desired to do so, far more successfully than at the present day (f).

International Credits: It will possibly be argued that if a community such as Great Britain were to adopt a Real Credit basis for its financial system, whilst all other countries and communities retained their present so-called gold basis, exchange of goods between Great Britain and foreign countries would therefore (for some reason not explained) become impossible except by direct barter. Let us consider. At the present day, as we know only too well, producing communities are competing and clamouring for markets. If, then, we maintained our demand for Argentina's wheat or America's cotton, without doubt both Argentina and the United States would be only too glad to supply us. But to attract such goods to our markets, it is necessary for us to pay for what we import in cash, credit, or commodities. The cash payment we can disregard as obsolete. International transactions of to-day are carried out upon credit, with an occasional

(f) See *supra*, page 120.

shipment of bullion to adjust matters. The fact that our credit was nominally secured upon a different basis from that of the foreigner ought to occasion no difficulty in practice. Whether we pay for our imports in gold or credit, it simply means that in the long run Argentina or the U.S.A. has a claim upon us to supply to their demand goods or services of equivalent value. In its essentials international trade is, even to-day, merely direct or indirect barter. So long as the foreign seller is satisfied that the credit advanced to him in exchange for his cotton or his wheat will be exchanged for goods or services upon demand, so long will he be willing to supply us with all the wheat or cotton we require. *The value of the credit we offer is what chiefly interests the foreign merchant. The basis of that credit does not greatly concern him.*

Foreign Exchanges. Or it may be suggested that the application of the Social Credit Proposals to an individual unit among the interdependent communities of the world would ruin that community's foreign trade, "because of the rates of exchange." What exactly is implied by this phrase is a little hard to fathom. Is it feared that the purchasing-power of our credit or currency would depreciate to such an extent that we should be unable to buy from abroad, or that it would appreciate so greatly that we, as a community, should be unable to sell? In either case the fear is unfounded. A moment's reflection will serve to show that, political and sentimental considerations apart, and apart from merely temporary money-market fluctuations due to financial jobbery and speculation, the rate of exchange prevailing between independent communities normally varies with, and is governed by, two considerations: (1) The commercial indebtedness of the communities *inter se*, and (2) the level of prices prevailing within them. In other words, the value of the sovereign in foreign markets tends to fluctuate directly with the purchasing-power of the pound at home, and inversely with the number of pounds owing to foreign creditors. If a community imports considerably more than it exports in goods and services, the rate of exchange becomes less "favourable" to that community, which means that it becomes harder for that community to buy in foreign markets, but on the other hand, easier for it to sell there. From this it seems to follow that one of the principal effects of fluctuations in the rates of exchange under normal conditions is to maintain automatically an approximate balance between the money-value of a community's imports and exports: nor is it easy to see why this would not continue to be so under the Social Credit Proposals. As for the tendency of the rate of exchange to fluctuate directly with the level of prices on the home-market, it is natural to expect that, as a consequence of the lower-production-cost anticipated from the adoption of these proposals (g), foreign exchanges would move more and more in favour of the community adopting them. That community would therefore find little difficulty in buying abroad the various commodities it did not produce at home. And, under a sane economic and financial system, if a community finds itself able to buy from abroad the food and raw materials it needs or desires, it is surely a matter of little moment to it whether, owing to the prevailing rate of foreign exchange, its manufactures are or are not for the moment readily saleable in foreign markets.

Barter. Let us, however, for the sake of argument, assume that the pessimist's worst fears came to be realised, and that foreign merchants, influenced by the threats or blandishments of Cosmopolitan Finance, refused to accept Great Britain's financial credit. It can easily be seen that, were our foreign trade to assume absolutely the form of direct barter, the advantage we should have over foreign rivals would be considerable. For instance, we want wheat. We have a number of superfluous locomotives. So, let us suppose, has the United States. Argentina wants locomotives. U.S.A. quotes a

(g) See *supra*, pages 120 and 137.

price calculated at production-cost plus profit. Great Britain, under the Social Credit Proposals, balances, not financial cost but real need, and quotes, in Argentinian dollars, a lower figure. We get the order, and deliver the goods, receiving Argentinian credit in exchange. With this we approach the Argentinian farmer, to buy his wheat. He can have no hesitation in accepting the credit we offer him, being that of his own country, and based, presumably, on what he would call a good, honest, gold foundation. What, then, has this wheat cost us? No British financial credit has been used to buy it. It has cost us Real Credit to the extent of certain locomotives. And if wheat were scarcer, and locomotives more plentiful with us, we could, if necessary, send abroad more locomotives for the same quantity of wheat. In any case, we could undercut any possible rival when we wished to sell, and offer more than any competitor when we wished to buy. It is obviously true that the producer of locomotives does not personally want to receive payment in wheat, but in money. This could be adjusted through a National Clearing House for Imports and Exports. The whole argument, in effect, reduces once more to this. International trade is still, as it has always been, essentially barter. There is no international currency, though there is a commodity which, by general consent, is employed to assist in, measure, and adjust the balance of trade relations. Indeed, so long as gold was still considered the best lubricant to ensure the smooth running of the wheels of International Commerce, and so long as its use was confined to purely external trade, there seems no good reason why gold should not continue to be so used. But gold is only a commodity, the same as corn or coal, however much the language of Finance in relation to foreign exchanges may have obscured this fact. Looked at as a development of pure barter, the broad principles of international trade relations do not seem to offer any insurmountable obstacles to the adoption of the Social Credit Proposals by a single community. These Proposals are merely a matter of internal arrangement. Minor difficulties of detail there may be, but even these would seem to exist mainly in the imagination. So long as principles and policy are sound there is no need to be unduly pessimistic about administrative detail. Where there is a will, there can generally be found a way.

Shipping. One final consideration before we draw to a close. Great Britain is the principal carrying nation of the world. Especially since the great cycle of wars we call Napoleonic, our merchantmen above all others have borne the world's produce over the Seven Seas. How would the application of the Social Credit Proposals to Great Britain affect her shipping and her carrying trade? So far as this trade consists in bearing the produce of one foreign country to another (as, in fact, a great proportion of it does) it would in all probability be unaffected, and by services so rendered, Great Britain would pay, at any rate partially, for the goods she imported from other countries. So far as her cargoes consist of imports for home-consumption, or of home-manufactures exported to foreign markets, her carrying trade might conceivably diminish somewhat, though this is by no means certain. The fact that our foreign trade partook more of the nature of free exchange, and less of that of enforced export, does not necessarily mean that there would be less of it. In any case, the percentage reduction in Great Britain's carrying trade due to the application to our country of the Social Credit economic proposals would probably be of the slightest. Nor would it be inherently harmful that a smaller number of our population should spend their lives upon the seas, manning the big steamers of commerce. Our shipping would, like our other industries, tend to become operated, perhaps by fewer persons, certainly with greater efficiency. As for the others, they would then be able to devote themselves to more congenial pursuits. Their National Dividends would enable them to live in comfort, if not luxuriously, and their new leisure, directed aright, would lead to the arising of a brighter, cleaner, less material generation, no longer servants of industry, but masters thereof.

Envoi. But this could not happen all at once. Time, that great healer, must first efface from the minds of men the prejudices and misdirected hatreds and desires engendered by present conditions. Yet, with a change of system, there will come a gradual change of outlook, and be it to-morrow or a thousand years hence,

"These things shall be. A loftier race
Than e'er the world has known shall rise
With flame of freedom in their souls,
And light of knowledge in their eyes." (h).

(h) J. A. Symonds.

APPENDICES.

APPENDIX "A."

THE FIRST PRICE-FACTOR.

APPENDIX "B."

THE DRAFT SCHEME FOR THE MINING INDUSTRY.

APPENDIX "C."

BIBLIOGRAPHY.

APPENDIX "A."

The First Price-Factor

The Problem. We have seen (a) how under the Social-Credit Proposals the Just Price of a commodity to the ultimate consumer is found by multiplying the production-cost (including profit) of that article by the current Price-Factor. We have also seen (b) that in practice the Price-Factor of any period is determined by the ratio of Real Credit Consumption to Real Credit Production within the community during the preceding accounting period. Yet, though we have seen how, when once the proposals were in practical operation, the Price-Factor for each successive period would be determined, we have never, so far, approached the question as to what would be the actual numerical value of the first Price-Factor.

Existing "Market-Topheaviness." If the aggregate purchasing-power immediately available at the present day was such that there was no "Market-Topheaviness"(c), then we should be faced with a comparatively simple task. We should select our period (say, for instance, one year), calculate the gross

(a) *Supra*, page 91.

(b) *Supra*, pages 97 and 119.

(c) *Supra*, page 41.

consumption of Real Credit during that period, and the simultaneous gross production thereof, and an elementary division sum would supply the Price-Factor. But we know that, very far from there being no Market-Topheaviness, there is indeed a serious discrepancy existing at the present day between the total available purchasing power and the total charges against such purchasing-power. This fact affects the situation considerably. In determining the first Price-Factor, it is necessary to take into consideration, not only the present tendency to Market-Topheaviness caused by contemporary industrial expansion, but also, an equally serious matter, the accumulated Topheaviness which is our heritage from past decades. So the question of the actual numerical value of the first Price-Factor must be approached from a rather different standpoint.

Ratio of Industrial Capacity to Actual Output.

We know full well that, at the present time, the capacity of Industry to supply is greatly in excess of its actual output, *limited as this latter is by lack of effective demand* (that is, demand backed by purchasing-power). In the absence of any authoritative statistics as to what figure exactly represents the ratio of this capacity to supply to the actual output, we shall have perforce to rely upon the estimates of those who have made a study of the subject. It is perhaps only natural that such estimates should vary somewhat widely. The most conservative computation places the capacity of Industry to supply at, at least, four times its present actual output. A more liberal estimate declares it to be in the neighbourhood of fifteen, not four, times. Let us, for safety, take the lower figure, and henceforth assume that our Industry can, in its present state of development, if called upon, turn out as much as four times its present normal output. Output, to-day, is limited by lack of *effective* demand. Effective demand is limited by lack of purchasing-power. If, then, the amount of purchasing-power in the hands of consumers was increased to four times its present amount, and at the same time means were taken to prevent a corresponding rise in prices, effective demand would also rise, to something less than four times what it is to-day. Nor would this increased Effective Demand be in excess of Industry's capacity to meet it (d).

Possible Price-Factor. In order to increase the amount of purchasing-power in the hands of consumers, and thus obtain the full benefit of Industry's capacity to produce, the number of units of purchasing-power at present in circulation might be multiplied by four, or it could be arranged for every existing unit to buy

(d) It has been estimated by Mr. H. L. Gantt that in America the Industrial Efficiency is only about 5%. An Industrial Efficiency of at least 75% ougnt to be well within the bounds of possibility.

four times as much as it does to-day. The latter alternative is the one advocated by Major Douglas. We might, then, conceivably inaugurate the Social Credit era with a Price-Factor of *one-quarter*, and this is the fraction generally suggested when the actual working of the Just Price is under discussion (e). If the Social-Credit Proposals are, as a beginning, only to be applied to one particular industry, and the initial Price-Factor is intended to be applied to the products of that industry only, there would seem no possible objection to the adoption of this figure. But if the initial Price-Factor is to have an extensive or national application, then it is submitted that the advisability of such a sudden and drastic expansion of purchasing-power must be considered very seriously from a psychological and practical point of view.

Dangers of too Sudden Application of full Reduction.

Quite briefly to enumerate the more obvious dangers of a too sudden application of the full price-reduction possible, we can, first of all, be morally certain that a sudden great expansion of purchasing power would lead to a drain upon the stocks held by retailers to an extent that Industry, not yet fully revitalised, might for the moment be unable to replace. There would follow a disorganisation

(e) See, for example, "Draft Scheme for the Mining Industry" (Appendix "B"); "The Cure for High Prices," "Socialisation of Credit," and similar Social-Credit Publications.

that might do as much harm as the evils it was intended to remedy. At the very least, it would give the new system a somewhat inauspicious start. Secondly, the sudden acquirement of comparative affluence might, to a certain type of mind, perverted by present-day conditions and unaccustomed to the possession of more than sufficient to satisfy life's barest needs, afford a great temptation to revel in a far from beneficial indulgence. Thirdly, the vast majority of the people, whilst realising the immediate advantages of expanded purchasing-power, having as yet had no practical experience of the system in operation, would have no firm appreciation of the fact that this present expansion was only possible because of the excess of Real Credit production over Real Credit consumption in the past, and that low prices could only be maintained in future by still keeping Real Credit production well ahead of simultaneous consumption. In short, there is a danger that this new-found economic liberty, if too precipitately entered upon, might, as has so often happened before in cases of too sudden realisation of freedom or wealth, lead to the natural abuses of reaction. Instead of there being an immediate and progressive, if gradual, revival of industry, a diametrically opposite effect might be produced. When changes of a fundamental nature are to be made, it is well that they be gradual.

Suggested First Price-Factor. On the other hand, however, a more moderate reduction of, say, 20% off prices could only do good. Therefore it is here submitted that, if the first Price Factor is not to be merely of local application or confined to one particular industry (in which case it might well be fixed at *one-quarter*), but is rather to be of national application, it should be fixed at, say, *four-fifths* or *three-quarters*, and the first accounting period at one year or even longer. During that first period, our productive capacity would have been more and more fully utilised, and, fostered by increased effective demand, greatly extended. So, gradually and successfully, the whole system would enter its stride.

APPENDIX "B."

Draft Scheme for the Mining Industry (a)

I.

1. For the purpose of efficient operation each geographical 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. The Capital already invested in the Mining properties and plant shall be entitled to a fixed return of, say, six per cent., and, together with all fresh capital, shall continue to carry with it all the ordinary privileges of capital

(a) First issued in January, 1919, and reprinted here by permission of Major Douglas.

administration other than Price-fixing. Depreciation shall be set against appreciation.

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

7. In case of a reduction in cost of working, one-half of such reduction shall be dealt with in the National Credit Account, 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 Colliery Owners and the Producers' Bank, in the ratio which the total dividends bear to the total wages and salaries. The benefits of such financing done by the Producers' Bank shall accrue to the depositors.

II.

1. The Government shall require from the Colliery owners a quarterly (half-yearly or yearly) 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 cause the price of domestic coal to be regulated at a percentage of the ascertained cost.

3. This Price (of domestic coal) shall bear

the same ratio to Cost as the total National Consumption of all descriptions of commodities does to the total National Production of Credit, i.e., Cost : Price : : Production : Consumption.

$$\frac{\text{Price}}{\text{per ton}} = \frac{\text{Cost}}{\text{per ton}} \times \frac{\text{Cost value of Total Consumption}}{\text{Money value of Total Production}}$$

(Total National Consumption includes Capital depreciation and Exports (b). Total National Production includes Capital appreciation and Imports (b).)

4. Industrial Coal shall be debited to users at Cost plus an agreed percentage.

5. The Price of Coal for Export shall be fixed from day to day in relation to the world market and in the general interest.

6. The Government shall reimburse to the Colliery Owners the difference between their total cost incurred and their total price received, by means of Treasury Notes, such notes being debited, as now, to the National Credit Account (c).

(b) See *supra*, page 133.

(c) For a full and explicit commentary upon the above Draft Scheme, see Appendix to "Credit-Power and Democracy," pages 147–212.

APPENDIX "C."

Bibliography.

The Social Credit Movement is still in its infancy, and it is only natural that as yet it has no extensive literature. The following list of publications dealing with the various aspects of the Movement may, however, prove useful as a guide to those who desire to become more closely acquainted with its aims and activities.

BOOKS.

COUSENS, HILDERIC.

"*A New Policy for Labour.*"

(Cecil Palmer, 5/-)

This book, described as An Essay on the Relevance of Credit-Power, is designed to afford a topical introduction to the ideas, economic and social, propounded by Major Douglas. It deals chiefly with the part played by Finance in the life of a modern industrial community. Mr. Cousens is the general co-ordinating secretary of the Social Credit Movement.

DOUGLAS, Major C. H.

"*Economic Democracy.*" (Cecil Palmer, 6/-)

"*Credit-Power and Democracy.*" (Cecil Palmer, 7/6)

"*The Control and Distribution of Production.*" (Cecil Palmer, 7/6)

In the first two volumes, Major Douglas has propounded his Analysis of the economic conditions prevailing in a modern industrial community, and has formulated certain principles for the Solution of the present economic impasse. Both volumes were set for the 1921 Economic Tripos at Sidney University, Australia. It is suggested that, of the two, "Credit-Power and Democracy" is the book more suitable to be read first. The third volume is a re-statement of Major Douglas' views from various standpoints, and consists mainly of the republication of lectures and articles delivered or written by him during the past three years.

KITSON, Arthur.

"*Unemployment, The Cause and a Remedy.*" (Cecil Palmer, 5/-)

In this interesting little book the Author, President of the Banking Reform League, and a well-known writer on economic subjects, advocates Major Douglas' proposals as a solution of the unemployment problem. As an introduction to the closer study of these proposals, this book can be very highly recommended.

VOWLES, Hugh P.

"*Under New Management.*" (Geo. Allen and Unwin, 6/-)

A very readable book, surveying the present industrial malaise from different viewpoints—social, economic and political. This book, while not going at all deeply into the Social Credit Proposals, affords a good introduction to a closer study of the Movement.

PAMPHLETS.

SHORT, N. Dudley.
" *It's Like This.*" (Cecil Palmer, 6d.)

A pamphlet in the form of a story. It describes the economic vicissitudes of an imaginary island, and is intended to stimulate interest in the Social Credit Proposals.

YOUNG, Allen W.
" *Dividends for All.*" (Cecil Palmer, 6d.)

A short and lucid outline of the Social Credit Proposals. A very useful pamphlet.

In addition to the above there are several smaller pamphlets, of which it is only necessary to mention two. " *The Socialisation of Credit*," published for the Manchester Credit-Reform Group by the William Morris Press,, at twopence a copy, and " *Industrial Stagnation, Unemployment and War*," issued at the same price by the Stockport Group of the Social Credit Movement, are both excellent little pamphlets, and can be recommended as particularly useful for distribution to persons likely to become interested in the Movement. For particulars of other pamphlets and publications, application should be made to the Credit Research Library, 70, High Holborn, London, W.C.1.

PERIODICAL.

" *Credit-Power.*" (Monthly, 6d.)

This little paper deals more especially with the practical side and activities of the Social Credit Movement. Printed for, edited and published by Arthur Brenton, 70 High Holborn, London, W.C.1.

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