Thirteen Years of Progress
A Review of the Official Labour Party Publication,
"Socialism and Social Credit," 1935
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AUTHOR'S NOTE

In writing this review of "Socialism and Social Credit"--a Report issued by the labour Party last year and priced at twopence--I have had, first of all, to consider whether the subject should be dealt with at length or whether it should be disposed of in as short a manner as possible. Was it worth while to deal with the pamphlet, as it were, page by page, or should the method to be adopted be one of putting down the fundamental ideas of the authors of the pamphlet with regard to the matters under consideration, and then, shortly, contrasting these ideas with the fundamental ideas of the Social Credit movement?

My decision was taken in favour of dealing with the matter at some length, following fairly strictly the order of the Report. Whether or not the adoption of such a method makes the review more interesting I leave to the reader. The method obviously has disadvantages, but these are possibly outweighed by the ease with which the reader may deal with the Report and this review concurrently.

INTRODUCTORY

It is stated that the Report was prepared by a subcommittee at the request of the National Executive Committee. Nothing is said about its submission to the Labour Party Conference at Brighton early in October, 1935, but it is understood that it was submitted to that conference and was adopted. The following extract is taken from the introductory note to the Report:-

"The Report deals fully with Major Douglas's 'Social Credit' proposals and the National Executive Committee associates itself with the Subcommittee's conclusions on this subject." (Page 3, line 4.)

The subcommittee consisted of three members- E. F. M. Durbin, Hugh Gaitskell, and W. R. Hiskett - each of whom had, previous to their appointment, repeatedly expressed their antagonism to the Social Credit proposals. I think it is true to say, however, that no one of them, in criticising Serial Credit, has ever given much indication of having really studied the main principles involved. Their criticisms have been directed largely against what is known as the A + B Theorem.

Mr. Hiskett, from one point of view, might be called the most logical critic of the

Social Credit contentions regarding the gap between purchasing power and prices. He, at any rate, realises that if he is not going to accept the A + B Theorem he is logically compelled to postulate a condition of affairs where:-

"The total volume of money is sufficient to purchase at one time all final products awaiting sale or in process of manufacture, all raw materials and semi-manufactures and all the machinery for future production at its present value after allowing for depreciation." ("Social Credits or Socialism."-Gollancz, 1935.)

The committee state their purpose in the following terms:-

"What is the Douglas Scheme? How does it compare with Labour's policy? Are there any points of agreement between them? What are the points of disagreement, and why?" (Page 6, line 4.)

As to how far the committee have endeavoured to carry out their avowed purpose I will leave the reader of the Report to judge. It is probably agreed that they have searched for all points of agreement; but have they made any effort to find out and disclose in the Report what the vital points of disagreement are, and why? In view of the composition of the committee, one naturally expects the Report to be an attack on Social Credit, and so it is rather amusing to find that the Report begins by setting forth the alleged "Points of Agreement."

FIRST POINT OF AGREEMENT?

The first matter about which there is said to be some agreement is connected with the deficiency in purchasing power. It seems to me the committee suggest that Douglas maintains that there is a chronic deficiency between total purchasing power and RETAIL PRICES, or prices of goods for immediate consumption. This is illustrated by a statement in the Report that in boom periods there is a surplus of purchasing power over prices. This, the committee seem to think, disposes of Douglas's case that the money system is never self-liquidating.

What the committee do not seem to grasp or, alternatively, are quite determined to ignore, is that the Social Credit case is that purchasing power is never equal to TOTAL PRICES when both are regarded as a flow.

If purchasing power was chronically unequal to meet the prices of consumable goods on the market at the time, the system obviously would not last for very long.

The true position may be put thus:-
(a) The rate of flow of purchasing power will be, almost certainly, less than the

rate of flow of prices of CONSUMABLE GOODS when the rate of production of intermediate and capital goods is slackened.

(b) The rate of flow of purchasing rower will, almost certainly, exceed the rate of flow of prices 0F CONSUMABLE GOODS when the rate of production of intermediate and capital goods is accelerated. (An inflationary rise of price and the investment of excess profits must be mentioned here--it is embraced in the A + B Theorem.)

(c) The rate of flow of purchasing power will always be less than the rate of flow of TOTAL PRICES. One might possibly add here a proviso to the effect that this may not be so during momentary periods of wholesale bankruptcies and losses. Even then, however, the deficiency will only be deferred.

Industry must recover its bad debts out of future prices, and losses must be restored by future profits. In other words, bankruptcies and losses are themselves a cost against the future.

That the committee hold, or pretend to hold, the idea that Douglas alleges a chronic deficiency between purchasing power and prices of goods for consumption, is further illustrated by the following quotation:-

"During the boom, he (Douglas) admits the gap is temporarily filled, but only by the creation of additional debt to the Banks. This is. to Major Douglas, evidence of deficiency." (Page 9. line 2.)

The above is rather an extraordinary comment. Commonsense would indicate that industry does not get into debt unless it is unable to pay its costs from its income, so that the fact of a creation of an additional debt to the banks should, in all commonsense, be evidence of deficiency. Yet the committee seem to think that this particular statement of theirs strikes a mortal blow at Social Credit.

SECOND POINT OF AGREEMENT?

The second point of agreement is stated to be the common objection to destruction and restriction schemes as a cure for economic depression. This is a point of agreement, without doubt, but the Report goes on to say that "both Socialists and Social Crediters recognise the schemes for what they are—monopolies which aim at holding up prices and squeezing the utmost from the consumer." (Page 9, line 31.)

I should hesitate to say that this sentence expresses a point of agreement. There is just a subtle distinction which illustrates the difference in .outlook between a Socialist and a Social Crediter. The Socialist sees in the situation the results of greed, extortion, profit, and so on. The Social Crediter sees the results of faulty arithmetic. The Socialist sees an evil Capitalist extorting money from the worker. The Social Crediter sees a harassed business man trying his best to square his accounts.

THIRD POINT OF AGREEMENT?

The third point of agreement is stated to be a common attitude to certain moral aspects of the banking system. Reference is made to bank credit functioning as money and the power of the banks to create and cancel money. The Report then goes on to say:-

"These facts were not discovered by Major Douglas. They are to be found in all orthodox writings on the subject and are clearly stated in the pages of the Macmillan Report, but Major Douglas and other monetary reformers have certainly popularised them better than the Text Books and have also pointed to certain implications which tend to be slurred over in more orthodox accounts." (Page 10. line 9.)

I am sure this paragraph must have given the committee much thought in its composition. Major Douglas, I am certain, would make no claim to being the first man to have discovered the facts, but he is entitled to claim that he published the facts and drew certain conclusions from them in 1918. The facts were certainly contained in textbooks prior to that date--for example, H. D. McLeod's--but the conclusions from the facts had not, so far as I know, been drawn until Major Douglas's first publications. To suggest that the Macmillan Committee had any share in pioneering is merely laughable. The phrase "certain implications which tend to be slurred over" is, I think, worth a second thought. Apparently the committee have also "slurred over" them.

THE NATIONALISATION COMPLEX

The Report proceeds, at some length, to consider the Socialist conclusions from these facts regarding our banking system, and it is obvious that the committee's whole outlook is coloured by the nationalization complex. There is no suggestion made at all that even if the banks were nationalised the methods used in accounting the public moneys would be changed. The complaint, according to the Socialist outlook, is entirely that such powers are in the hands of private persons or institutions. That no change of method is contemplated is evident, I think, from the following extract:-

"That such great powers--of special significance now that the money system of this country is not tied to others through the Gold Standard--should be exercised by bodies which are legally beyond the control of the Government, is an anachronism as dangerous as it is absurd." (Page 10, line 32.)

I am not at all sure what interpretation is intended to be given to this sentence, but the only conclusion I can come to is that the committee would not see so much harm in the condition described if the Gold Standard was in operation. This shows quite clearly, I think, how much they have misunderstood the true position. That the committee are suffering from the complex I have suggested is further confirmed by the concern they show over the profits which the Bank of England makes. Pointing out that the profits of the Issue Department fall to the Treasury, they seem to think that so far as the Issue Department is concerned that problem is disposed of; but they also point out that since credit is not less money than cash and bank credit is quantitatively of much more importance "there is a strong moral case against the exploitation of credit creation for the purpose of making private profits." (Page II, line I.)

All the above shows clearly that the committee have not concerned themselves with the method of issue and cancellation of money, but rather with the titular right to create money and the profits accruing from such right. It is quite fair to suggest that if the committee had their way and the banks were nationalised, the same methods of issuing and retiring money would still be in operation and the essential problem, therefore, would be no nearer a solution. An admission is made in the Report that expenditure on public works can be carried out only by incurring further debt, thus burdening future taxpayers with interest and sinking fund payments. The Report states:-

"Simply because the right of creating new money does not belong to the State. the necessary impetus to recovery cannot be given." (Page II, line 26.)

One is left wondering how, if the right to create new money belonged to the Labour Party, they would account it. There is nothing in the Report, so far as I am aware, to show that they would account it as anything else but debt, nor that they would not insist on its recovery via taxation. It is true that this point is dealt with to a certain extent on page 32 of the Report, but it is stated that where debt is not repaid out of taxation it is only a temporary expedient and the quantitative issues of such credit will not be large.

Before coming to their criticism of the Social Credit analysis the committee make the following statement:-

"It is most unlikely that the full Social Credit proposals could be applied without either producing inflation or making it impossible for the Banks to exist in their present form." (Page II, line 34.)

This statement is used as an argument for nationalisation. It is quite carefully worded. If we amend the terms of it a little, I think most Social Crediters would agree with it as follows:-

Social Credit proposals cannot be applied within the present money system. They can be applied only in a changed money system and such change involves a change in the policy of the banks and the Treasury.

It is merely childish at this time of day to say the Social Credit methods would cause inflation. Social Credit could not be applied within any system which permits of inflation.

The committee of the Labour Party is simply up to the old game of criticising Social Credit in terms of orthodox finance.

THE A + B THEOREM

The second division of the Report is stated to be a criticism of the Social Credit analysis, and early in this section the A + B Theorem is quoted. This theorem, it is said, is the central argument on which Major Douglas bases his conclusion. I would suggest that this is entirely wrong, and that the A + B Theorem is the method by which Major Douglas illustrates his conclusion.

According to the committee of the Labour Party, the suggestion seems to be that one day Major Douglas discovered the A + B Theorem and the rest of the analysis followed. However pretty the mental picture conjured up by such a suggestion, I am afraid that idea must be discarded.

The A + B Theorem is merely a condensed method of stating facts which were discovered by independent means.

In Major Douglas's first published book, "Economic Democracy ," the A + B Theorem does not appear.

The committee having decided to deal with the A + B Theorem, it is a pity, to my mind, that they could not quote it correctly in their Report. They state:-

"A factory, or other productive organisation, has, besides its economic function as a producer of goods, a financial object." (Page 12,line 34-my italics.)

While it is true that productive organisations have a financial object under the present system, that is precisely what the Social Crediter says is wrong. The correct statement of the A + B Theorem begins by saying:-

A factory, or other productive organisation, has, besides its economic function as a producer of goods, a financial aspect, which is an entirely different matter.

The Report proceeds to examine the A + B Theorem in its different interpretations. I do not intend to deal with these at length, as they have already, to my mind, been ably dealt with by Mr. A. W. Joseph in a pamphlet called "The A + B Theorem."

Broadly speaking, the Report ignores the facts of accumulation of financial capital and involuntary investment and, therefore, its arguments against the theorem are weak. I will, however, deal with a few of the higher lights in this section of the Report.

Under the division headed "Repayment of Bank Loans" the Report says:-

"Now it is certainly true that if on balance throughout the whole of industry loans are repaid to the Banks, a deficiency of purchasing power is bound to arise...The question here is simply one of fact. Is there a tendency for the total of Bank loans to diminish? The answer is, that at certain times--during depressions--this is the case, but at other times the total of loans definitely expands." (Page 16, line 5.)

Further on in the Report it is stated:-

"Equally, if a firm is voluntarily repaying a loan out of profits, and the Banks do not immediately create another loan to another producer, then again deficiency is bound to arise, but as we have already said, the question here is really one of fact and the facts show no general and chronic tendency for the total of Bank loans to diminish." (page 17, line 9.)

The argument here is not very clearly stated, but I think it is fair to assume that the committee admit that repayment of bank loans charged into prices and appearing, therefore, as profit, do create a deficiency of purchasing power, but that such deficiency is corrected by the banks issuing further loans to other producers, and, therefore, so long as total bank loans do not show any sign of diminishing, there is no deficiency.

In my opinion, this illustrates the fundamental difference between the views of the committee and the views of the Social Crediter. Social Crediters realise, as the committee apparently does not, that these further bank loans to other producers have got to be repaid, and, therefore, do not correct the admitted deficiency--they merely postpone it.

The committee evidently do not see that bank loans repaid may undergo a metamorphosis and become securities or reserves which still remain a charge against the ultimate consumer.

It is surely obvious that industrial debt and national debt, requiring ultimately to be met and forming a charge against the consumers (admittedly unpayable under the present system), are not to be measured by the increase in bank loans. While bank loans have on balance probably diminished since 1920, Government, municipal, and industrial debt has increased in fantastic proportions. The committee's failure to see this arises from the fact that they ignore accumulations of financial capital in considering the A+B Theorem.

A little later in the Report it is stated:-

"It is, in fact, the policy of the Labour Party to stabilise prices; and prices can only be stabilised, when production is increasing, if there is an adequate increase in the quantity of money." (Page 17, line 3B.)

It seems to be clear from this statement that the committee look on stabilisation as having some miraculous quality, and it is also clear that they regard the volume of money as being something which should control prices which again goes to show that they have not understood the principal Social Credit contention, which is that the money system must no longer be used to control prices through the so-called law of supply and demand. Prices should be controlled by the real cost of production.

THE ILLUSIVE INVESTMENT

In three paragraphs under the sub-heading of "Investment," the committee go on to record their criticism of an aspect of the deficiency. They record the views of the Social Crediter in the following terms:-

"The act of saving withdraws money from the market for finished commodities and makes it impossible to sell a part of the product. The money which is saved is invested and paid out eventually in wages, and so passes into consumers' income; but in the meanwhile, it is argued, the process of investment has led to the production of new capital goods and there is no purchasing power available to purchase these." (Page IB, line 15.)

The above statement of the Social Credit case is a reasonably fair one, but it does emphasise the problem as if it was entirely one of individual consumers or workers saving actual cash from their incomes and buying new investments. It ignores, or at any rate does not make it clear, that the processes of saving and investing are going on all through the industrial system and are being carried on by producers of all kinds in the form of reserves and undistributed profits.

The Report goes on to say that the above stated argument is quite unsound, for the reason that if investment takes place concurrently with saving the deficiency caused by the saving is balanced by the money spent on the investment.

"It is true that if saving increases, some finished commodities cannot be sold at their old prices, but at the same time some investment goods, machinery, buildings, raw materials, etc., will be sold at more than cost prices. There will be depression in certain industries and boom in others; less money will be distributed in some, and more in others. Consumers' income as a whole will be unchanged." (Page 18, line 36.)

One is left wondering what on earth the committee meant when they wrote this. Investment goods, machinery, buildings, raw materials, etc., are not sold in the sense that their costs are defrayed. They are merely transferred from one ownership to another, the financial costs attaching to thein still remaining to be defrayed by the only person who can defray costs, namely, the consumer.

The following quotation, I think, shows clearly the wrong ideas on which the committee are working. It occurs shortly after the previously quoted extract:-

"As the new capital goods are produced, they will continue to be bought by the savings of consumers. They will then be used in production. This will lead to an increase in the output of industry. If there is to be no fall in prices, it is necessary that the quantity of purchasing power and the incomes of consumers should now be increased. This is, of course, implicit in the Labour Party policy of stabilising prices. A failure to increase purchasing power at this point might be said to constitute a deficiency; but it is certain that this is not the main deficiency to which Major Douglas refers." (Page 19, line 12.)

This extract is, I think, worth a little careful study. Take the first sentence. The suggestion that new capital goods are bought by the savings of consumers is nonsense if it is intended to suggest, as I think it quite clearly is, that the costs incurred in making these new capital goods are thereby wiped out. If new capital goods are paid for by the savings of consumers, the consumers who did pay for them are now investors holding shares, mortgages, or debentures, in the form of scrip. They look to this scrip to bring them a return in the way of income and ulrimately to repay to them the money originally paid for the scrip. If consumers, as a whole, have invested in capital goods, then they can only look to themselves as the source out of which their dividends are to come and out of which their capital is to be repaid to them.

Consider the sentence above, beginning "If there is to be no fall in prices." This again shows quite clearly that the committee of the Labour Party think that the volume of money should control price. One can only assume from the next sentence that the official Labour Party policy of stabilisation recognises that in these circumstances there would be a deficiency of purchasing power and that they have a remedy for such deficiency. This remedy can take only one of two forms. It can take the form of encouraging still further increased production of capital goods, or it can take the form of distributing free credit either to the consumer or to the producer for reduction of prices.

There seems to be no doubt whatever which of the above two forms would be adopted by the Labour Party. It must be the former, through which schemes of public works or the encouragement of production of still further capital goods would provide an agency by means of which an increased total volume of wages would serve the purpose of preventing too severe a fall in the prices of finished goods.

STATIONARY EQUILIBRIUM?

The committee's arguments under the heading of "Depreciation" are a re-hash of the old argument that while depreciation is being charged on one factory, there would, or should, be another factory in the process of erection, the wages paid on the construction of which would meet the depreciation charged on the first factory.

It is merely another aspect of the argument about industry being in a state described by Professor Robbins as "Stationary Equilibrium," or, if one prefers it, "A steady state of self-repeating movement."

The argument takes no account whatever of the fact that although a factory may take only one year to build, it may take fifty years to wear out, and seeing such an argument in print, or listening to it in conversation, has always conjured up a vision before my eyes in which the erection of the second factory is carefully scheduled to take fifty years to build, in order that the money distributed in course of its erection will correspond to the depreciation charged on factory number one.

SUBTLETY

The opponents of Social Credit have often said, as indeed the Labour Party's Report suggests, that Major Douglas in his writings is very obscure. What, then, are we to make of the clarity of the following extract from the Report?--

"A more subtle form of this argument maintains that the actual change-over from labour to machines causes a diminution of the actual monetary circulation. Since cost reduction, it is maintained, is the stimulus to replace labour with machines, the new costs will be less than the old, and hence the amount of money used by industry will be less. There are doubtless occasions when this will be so, but it seems equally probable that since the reduction of costs offers the prospect of higher profits, more, rather than less, will be borrowed by industry. Because a firm reduces its unit costs, it does not necessarliy reduce the total amount which it spends, i.e., its aggregate costs." (Page 20, line 25.)

The last sentence in the above extract is, of course, a clear statement of fact, but what the meaning, or intention, of the paragraph as a whole is, I must confess I do not know. Presumably this "subtle form of the argument" is being fathered on to the Social Credit movement, but Social Crediters will have no hesitation in disowning it.

LABOUR SAVING

This particular section of the Report finishes up by saying that "the real objection to the replacement of labour by machinery" is that it "generally throws certain workers out of employment," and that:-

"in any case it continually tends to reduce the relative share of labour in the product and increase the share of capital." (Page 20, line 40.)

The Social Credit proposal, as we all know, is to give every citizen of the country a share in the capital of the country in the form of a National Dividend, or, if you like to look on it in that way, to make everybody a capitalist.

But the Labour Party committee say:-

"The method of dealing with this evil is not monetary policy, but Socialism. The community must, itself, own the machines." (Page 20, line 41.)

It is evident, therefore, that the committee are still unable to distinguish between titular ownership and administration.

Incidentally, no Social Crediter has any objection, real or fancied, to the displacement of labour by machinery, but, on the contrary, welcomes it.

WHEN DOCTORS DIFFER

The third section of the Report is devoted to a consideration of the Social Credit cure, and the Report admits that this cure follows, for the most part, quite logically from the analysis. It is therefore rather extraordinary that, having to their mind completely disposed of the analysis, they should be at any trouble at all to deal with the cure.

However, actually almost seven pages of the Report concern themselves with exposing the "fallacies" of the cure.

This particular aspect of the matter is dealt with by the committee in the following terms:-

"Before proceeding to consider this scheme, we must emphasise that disagreement with Major Douglas's analysis is not in itself an adequate reason for rejecting his proposals entirely. It has already been pointed out that at a time when resources are not fully employed an increase in the quantity of money is required. Major Douglas does, in fact, suggest one way by which this might be provided. It remains to be seen how far this is the best way, and also how far the Social Credit proposals can secure not only the achievement but also the maintenance of a high level of production." (Page 22, line 1.)

The above paragraph confirms my previous contention that the committee had, at the back of their mind, some faint hope or fear--whichever way you like to put it--that the Social Credit proposals might possibly be operated within the present system. Having failed altogether to consider in any adequate way the basis on which the Social Credit proposals are founded, the committee naturally adopt the above outlook. If the committee had really examined the basic ideas which are fundamental to the Social Credit proposals, and rejected them, then there would have been no necessity whatever for them to deal with the remedial proposals at all.

The Social Credit proposals fall under three heads:-
(I) The setting up of a National Credit Account: This proposal is based on a conception of Real Credit.
(2) The compensated price, sometimes referred to as the just price, or the national discount: This is based on the axiom that the real cost of production is consumption, together with a realisation of the uses to which financial credit can be put.
(3) The issue of a National Dividend: This is based on the previous conceptions together with a realisation

of the part played in production by what is called "The Cultural Inheritance."

The astonishing thing about the whole Report is that nowhere in it is there any sign that the committee have considered either:-
(a) The distinction between Real Credit and Financial Credit.
(b) The axiom that the real cost of production is consumption, or
(c) The idea of The Cultural Inheritance.

Nowhere in the Report are any of these three things mentioned, and yet, as I have said, these three things are the fundamentals of Social Credit.

With regard to (b), namely, the axiom that the real cost of production is consumption, it is not surprising that the Labour Party committee do not deal with this, because, so far as I know, no critic of Social Credit has ever dealt with this. They have all considered it much wiser to ignore it.

STRANGE SILENCE

Assuming, for the moment, that the present mqney system works as the committee seem to think it does:-
In any one year let us suppose that the financial figures attaching themselves to the total production of the country are as follow:-

Consumable goods £3,000 million
Capital goods and development £1,000 Total
production £4,000
million

Then, presumably, the committee's conception of what happens is that people as a whole get £4,000 millions, out of which they spend £3,000 and invest £1,000. The question is, have the community been fairly charged?

If it is true that the real cost of production is consumption, then. the real cost of this year's production is only £3,000 million, not £4,000 million, and the correct price at which the £3,000 million of consumable goods should have been charged was-£3,ooo x - 3,000/4,000 or £2,250 million; so that on a question which suggests that the community as a whole are possibly being overcharged £750 million per annum, the Report is curiously silent.

THE DIVIDEND

The section of the Report which deals with the National Dividend is very small. Its value as effective criticism is even smaller. Reference in it is made to the Draft Scheme for Scotland which should, at any rate, suggest that the committee have studied that scheme. On the other hand, the paragraph goes on to suggest that it is proposed to distribute purchasing power equal to the total capital value of all assets.

There is, of course, no such proposal in the Draft Scheme for Scotland. The initial National Dividend in the scheme is suggested at one per cent. of such capitalised value, so that to the mind of the committee one per cent. must be equal to the total. This short paragraph on the National Dividend illustrates also the previous contention that the committee have made no study whatever of the question of Real Credit and Financial Credit. The following extract will make this clear:-

"An obvious fallacy here lies in the fact that Major Douglas appears always to include the capitalised value of all assets in his estimate of production. and even goes the length of capitalising the productive capacity of individuals." (Page 27, line 38.) .

What the significance of the words "estimate of production" is, in the above sentence, is one which I am not quite able to solve. If it is an estimate of real resources up to date, then that is one matter; if the committee are suggesting that it is an estimate of increase annually, then, of course, that is another matter altogether. To illustrate the real worth of the committee's statement, I would refer the reader to the

Scheme for Scotland: "From the Grand Total thus obtained" (valuation in money of physical assets plus population) "a figure representing the price value of the Scottish Capital Account could be obtained."

By some peculiar means the committee translate "the price value of the Scottish Capital Account into "estimate of production."

THE ONLY WAY

The last section of the Report deals with what it calls "The Real Solution." It is quite clear that to the mind of the committee no change in the financial system is required, so that from one point of view further comment on this section should be unnecessary. There are, however, some high lights which might be dealt with:-

Extract (1)- "By varying the lending policies of the Banks and thus the volume of money, it should be possible to increase very considerably the volume of output." (Page 28, line 24.)

Again is illustrated the conception that money and the volume of money is to control production.

Extract (2)- immediately following Extract (1)- "The standard of living could be made to rise slowly but steadily as the real productive power of society grew larger." (page 28, line 26.)

Earlier in the Report the proportion of unemployed resources is stated at 30 per cent., so that it seems rather extraordinary to suggest that the standard of living requires only to rise slowly but steadily. One would think that a 30 per cent. increase at least would be due immediately.

Extract (3)- "In the View of the Labour Party, the course of capitalist depression is characterised by a deficiency of purchasing power at certain times, and an excess of purchasing power at others." (Page 28, line 30.)

Here, presumably, the committee are referring to purchasing power as against consumable goods.

Extract (4)- "Only money in active circulation provides a market for 'production and increases employment. One method, and again a perfectly orthodox one, of intensifying the activity of monetary circulation is for the Government to spend more money on capital account." (Page 30, line 33.)

The above illustrates the committee's belief in the velocity of circulation theory which, of course, is involved in their acceptance of control of price by the volume of money. The extract also illustrates what I have suggested earlier as the method the committee advocate of making good the deficiency which they see as between money and prices. The method, of course, is merely to "borrow yourself out of debt." The extract also shows that the committee think the objective of industry is to provide employment.

Extract (5)- "No doubt there is room for further capital expenditure on housing, but it should always be accompanied by the kind of investment in productive industry which will provide continuous employment at higher real wages. The real social income must be increased...It is not possible to persuade industry to borrow more when it is in the throes of acute depression." (Page 31, line 15.)

This extract again illustrates the previous statement that the committee think that the objective of the industrial system is employment. What real wages are, and what the real social income is, is perhaps a little doubtful, but there is a suggestion at any rate that it is only real if it is the result of work. The last sentence is, I think, of special significance.

Extract (6)- "This method, however; in so far as it involves an unbalanced budget, is not in accord with the Labour Party's official policy." (Page 32, line 5.)

So now Mr. Montagu Norman and his friends can sleep soundly at nights. Their pretty little financial system is in no danger from the official Labour Party.

At this point, one might pose a genuinely orthodox conundrum:-

Query: When is an unbalanced budget not an unbalanced budget? Answer: When the expenditure on public works is funded.

Illustration: If your football team gets beaten by four goals to two, the simple remedy is to fund three of your opponent's goals, in which case your team has won by
2--1, and for the next three years you start the match a goal down.

This illustration, of course, is given strictly within the orthodox framework of present-day finance.

Extract (7)- dealing with a suggestion made by Mr. Thomas Johnston in connection with applying new creations of credit to reduce the price of certain commodities for supply to the poor--

"The difficulty about such policies is purely psychological. They could, and would, be represented by the opponents of financial control as dangerously inflationary. They are nothing of the kind. They differ in no important economic respect from the most orthodox methods of financial reflation, but they could be misrepresented." (Page 33, line 2.)

Apart from the somewhat loose phraseology of the above--for example, "differing in no important economic respect from methods of financial reflation" it seems to me that the committee have, when they recorded this statement, come nearer the truth of the matter than in the whole of the rest of the Report. In view of this, it is a pity that they chose to ignore the fact that their own difficulty with the Social Credit proposals is purely psychological, too. They see in prospect, opposition to a particular aspect of their own ideas of precisely the same nature as their own opposition to the Social Credit idea. Whether such opposition is the result of an honest failure to grasp the proposals or not I leave to each individual reader of the Report.

Extract (8)- "It will be necessary for the Government through the machinery of central economic and financial authorities to control the lending policies of the Banks, the money income of the community, the volume of saving and the volume of expenditure. It can do these things most easily if it owns all industries." (page 34, line 2.)

So now we know. Here is the picture of the ideal Socialist state. Studying the extract slowly again, one is tempted to add-- "and it can do these things more easily still if it owns all the population."

THIRTEEN YEARS' PROGRESS

It remains now only to consider the Report in relation to the previous Labour Party Report, which was published in 1922, and to which Major Douglas made an official reply published shortly afterwards.

It is interesting to note that the first Report by the Labour Party has been allowed to go out of print and is no longer available to the ordinary public, but presumably it was available to the present subcommittee of three.

One would imagine, therefore, that the committee, in making this present Report, would have consulted the earlier one and also Major Douglas's reply.

In his reply to the first Report, Major Douglas laid down the four premises from which the first Labour Report proceeded, as follow:-
(1) That financial credit is a concrete thing conditioned by limitations inherent in itself.
(2) That banks and bankers cannot and do not create financial credit.

(3) That the price of an article should be what it will fetch.
(4) That the objective of the industrial system is employment.

These were the premises from which the 1922 Report proceeded. Does the 1935 Report show any alteration in these premises? The answer is that the present Report admits that banks and bankers can and do create financial credit. It has to admit that, because it has been proved; but obviously the implications of such an admission have been ignored.

For all practical purposes, therefore, the premises from which the 1935 Report proceeds are the same as the premises from which the 1922 Report proceeded. In his reply to the earlier Report, Major Douglas laid down the premises of the Social Credit movement as follows:-

(1) That financial credit is a mere device which can have no economic significance apart from real credit.
(2) That banks and bankers can and do create financial credit, and by successful manipulation appropriate the power resident in the real credit of the community for purposes largely anti-social as well as purely selfish.
(3) That the price of an article should be that which will get it produced and delivered in the maximum quantity desired.
(4) That the objective of the industrial system should be the delivery of goods and services to the orders of individual consumers. It should not be employment, nor is it a common aspiration of the community that it should be designed to place any individuals whatever, either high financiers or members of the Labour Party Executive (however great their moral and intellectual qualifications may be), in a position to arbitrate on what is, or is not, useful work, and to withhold a share in economic prosperity from "non-workers" as thus arbitrarily defined.

The Labour Party committee, therefore had this statement of the premises of the Social Credit movement before them for their consideration, and I leave to each individual reader of the Report the question as to how far the committee have studied these premises, and to what extent they have attempted to shake them.

Imagine that some person put forward for your consideration certain proposals. Would not your first questions be:-
(a) "What are you trying to achieve, and why?"
(b) "Are the proposals you suggest going to achieve your object?"

These questions show what might be called a commonsense attitude to any proposals of any kind.

The question for the reader's consideration is-- "Have the committee of the Labour Party, before rushing in to criticise the methods to be employed, made any attempt to find out what the Social Credit Movement is trying to achieve, and why?"

The pronouncements of the Labour Party on Social Credit will, therefore, in my opinion, never be of any great value until they will make a pronouncement upon the aims of Social Credit as distinct from the methods advocated. However efficient the engine of a motor car may be, it is not of much value if the bonnet is aiming in the wrong direction.

CONCLUSION

In conclusion, I would draw the attention of the reader to the correspondence which passed between the Labour Party and the Social Credit Movement both in connection with the previous Report and in connection with the present Report.

The committee state:-

"We were anxious to have the assistance of recognised supporters of these proposals in exploring how far they might be harmorused with Socialist belief and policy. We accordingly approached the Social Credit

Secretariat with an invitation to nominate a representative who would be willing to meet us for a discussion of matters in which we were mutually interested...We explained that we made no claim to be an impartial committee in the sense of having no attachments, that we were, in fact, convinced Socialists...We emphasised our desire to explore the possibilities of partial agreement between the Labour Party and the Social Credit Movement."

The above extracts and other statements of a similar nature included in the Preface to the Report show that the committee were trying to make their position clear. This is quite understandable when one considers who the committee were, but I do not think that the arguments put forward dispose of the particular aspect of the matter which I have dealt with above, and the Social Credit Secretariat, quite naturally, declined the invitation.

Somewhat the same position was disclosed in the 1921 correspondence, with the exception that no points of agreement were alleged to exist then.

I think, on the whole, that the truth of the matter is that the official Labour Party has never clearly stated the premises on which it takes its stand, what it is trying to achieve, and the methods by which it hopes to achieve it.

It has, more or less, confined itself in its publications to questions of administration as opposed to questions of policy, and to questions of morals--that is to say, expressions as to things being right or wrong--as opposed to questions as to whether things are workable or not workable.

In this sense the official Labour Party, it seems to me, are more concerned with making individuals "good" than with making them free.

Orthodox Socialism would suggest that only a limited number of individuals can be free and that these can obtain their freedom only at the expense of others.

The Social Credit Movement, on the other hand, suggests that it is now possible to grant individual economic freedom to all, and that such individual economic freedom is socially desirable.