A New Edition

REAL WEALTH
and
FINANCIAL POVERTY

A Synopsis of
The Douglas Social Credit Proposals

BY

W. H. Rhys.

By the Chairman: "But Major, if I were borrowing a million dollars from a Canadian Bank and I gave them two million dollars worth of Victory Bonds, notes, as collateral, that is something behind the loan, because it is something realizable. In this case, apparently, you put up nothing at all."
Major Douglas: "There is the greatest possible thing that you can possibly have under the circumstances behind that loan, and that is the Real Credit of the country."

—Major C. H. Douglas before the Select Standing Committee on Banking and Commerce, Ottawa, Canada, 1923.

"Mr. Rhys' pamphlet is admirable . . . and is worthy of being read and re-read by any student of economics and world problems."

—Brisbane *Daily Mail*.

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NOTE TO THIS EDITION.

The "Final Edition" of *Real Wealth and Financial Poverty* was announced and published in January of this year, and it was then the intention of the author to make that edition truly a final one of the booklet in its original form, as he considered that if ever a call should be made for a further issue—which would involve the re-setting of the type—he would revise certain passages in the light of experience and later developments. Such a call has since been made, in that the "final edition" was soon sold out and an insistent demand for copies of the booklet continues to be made both in Australia and from abroad. But unfortunately the author's present state of health will not allow him to undertake the intended revision, and, accepting the view expressed by many in the Movement that it is too valuable a work to let go out of print, he has generously granted permission to have it reprinted in its present form, subject to one or two minor alterations, the addition of a very helpful illustration of the A + B Theorem accompanied by a diagram, and the inclusion of Major Douglas's plan for Scotland, as an appendix.

Owing to the higher cost of printing, the price has been increased to one shilling.

TO THE READER.

"I found myself a man . . . with infirmities, yet, thought I, I must do it, I must do it."—Bunyan.

WERE the times other than what they are, I should deem an apology necessary for adding my mite to the mass of printed matter. But the times are out of joint. "There's something rotten in the State of Denmark." The learned economists and those who occupy "the seats of the mighty," appear to gain consolation, and offer it to us, in saying that "such things as these, you know, must be; and it will all come right in the end." This, in a scientific age. And they are all honourable men, and some even "Right Honourable."

My sole desire and purpose is to assure readers that such things NEED NOT BE, AND THAT THERE IS A CURE. I want to spread the knowledge I have gained from the study of the works of Major C. H. Douglas and the columns of *The New Age*, in the hope that good may come of it.

For years I have waited for someone to publish a little booklet for Australians upon this subject, and now I find Fate had decreed it to be my work! So here it is. Who can dodge his destiny?

As for material; for the past ten years my memory has been adding to its store of facts, figures, formulae, and phrases; and so much have I pondered over them that they have become a veritable part of me.

My only difficulty has been to select and set forth the matter in an attractive, interesting, and instructive way. I have nothing new to say. It has all been said a thousand times before, but—now I want YOU to hear it.

For the rest, I may say with Charles Reade: "They may be other people's cows, but I've milked them and made the cheese." To know whether my "cheese" be good or not, you will have to do more than TASTE. You must eat and digest it, and then—you may tell me.

The heavy type or emphasis is mine throughout, unless otherwise specified.

A portion of this booklet was published in *The Australasian Accountant and Secretary*.

W. H. RHYS,
"Rycroft," Kenmore,
Brisbane, Queensland.
September, 1930.

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BY

W. H. Rhys.

"Thou hast multiplied our nation, but our joys are not increased."—Isaiah.

"There must be refuge. Men
Perished in winter winds till one struck fire,
They gorged on flesh like wolves till one sowed corn,
They mowed and babbled till some tongue struck speech
And patient fingers framed the lettered sound." —Edwin Arnold.

"The fact that this claim is now being made as a logical proposition, backed with scientific proposals for the adjustment of a new system, is a proof in itself that a new economic era is at hand. . . . There is here no question of a redistribution of the available cash, or sharing out the rich man's superfluity, which would have quite an opposite effect to that intended."—Connor Smith in "Where Does Money Come From?"

"Come now, let us reason together."—Isaiah.

INTRODUCTORY.

"I conceive myself but as a member incorporate into that truth whereof I was persuaded."—Milton.
"It gives me no satisfaction to commence to spring an arch before I have got a solid foundation."—Thoreau.

Can goods be sold at less than financial cost, the manufacturer and merchants getting a fair profit, and wage and salary earners getting well paid?

If this question had been asked twelve years ago, only one man in the world would have answered, "Yes," and been able to explain the technique of how it could be done. To-day, tens of thousands in all parts of the world would also answer "Yes," and thousands could explain the way to do it.

That one man was Major C. H. Douglas, M.I. Mech. E.,M.I. Mining E., M.I..E.E., London, who gave the world his discovery in his *Economic Democracy*, and *Credit-Power and Democracy* (Cecil Palmer, London), now known as **"The Douglas Social Credit Proposals."**

The bibliography which has grown up around the Douglas Proposals would fill a fair-sized catalogue, and such important reviews as *The Nineteenth Century and After*, *The Catholic Quarterly*, and *The Army Quarterly* have devoted pages to lengthy and approving articles on the proposals. *The New Age*, published at 70 High Holborn, London, is the official organ.

THE MAN—MAJOR C. H. DOUGLAS.

"He gives who teaches, he learns who receives."—Emerson.
"For that which was lacking, yet needed most, I bring."—Whitman.
"In a short time he fulfilled a long time."—The Apocrypha.

A man and his works are one, and it is therefore of no less importance to find the emotional and instinctive origin of his ideas, than to test their economic accuracy and yalue. Viewed from this point, the difference between Major Douglas and the orthodox economists is radical, polar, diametrical. During the past century, economists have given us a set of dogmas of a purely artificial nature, based upon statistics and called economic "laws." We have been constantly treated to sermons by the Press urging their validity, as though these "laws" were as immutable as the Law of Gravitation. From Adam Smith to Keynes, the economists have been adding line upon line, precept upon precept, here a little and there a little; but they offer us no relief, no solution for the problems that press so heavily upon all classes.

Now comes Douglas, not an "economist"—thanks be!—but a practical engineer, trained in the applied sciences. His life's work compelling him to deal with concrete facts, a deviation from which would be fatal to his work. He has carried out large and important works on three continents.

It was Major Douglas's experience at the Aircraft Factory, Farnborough, England, where during the war he was sent as Superintendent to straighten out costing muddles, that led him to make an intensive study of economics; and more especially into credit and its relation to cost and price. Impelled to study the economic problem as an engineer, whose work had in former times been impeded and blocked by an obsolete money system, his sole desire was to discover the reason why the mechanism of the industrial system—**the potentiality of which was in excess of consumptive capacity**—was not allowed to produce and deliver goods and services to consumers who stood so urgently in need of them. A scientist's desire to know the cause and to find the solution.

To disclose to the world something which deeply concerns it, to prove that it was mistaken on some vital point of which it was previously ignorant, is as important a service as a human being can render to his fellow creatures. Major Douglas's theorem has successfully withstood the attacks of twelve years. It has never been answered, much less refuted. Based on facts, supported by abundance of evidence, it stands intact, flawless. And if the exactitude of mathematics, which have been checked and counterchecked, is proof, then the proof is positive.

CALM DELIBERATION REQUIRED.

"There is not much difficulty in confining the mind to deliberation when we have a desire to learn."—Watts.
"He who loves himself, his wife, his child, his fellow man, will welcome the exertion of thorough reading, thorough thinking and assimilation."—*The New Age*.

In writing an exposition of The New Economics (absolutely essential as it is to the welfare and prosperity, and indeed to the very life of the economic body, which includes four-fifths of the social and political life), there should be a tacit agreement between the writer and his readers. He to state the case in as clear, concise, and sequential a way as he can; they to study the case with an attentive, studious, and thoughtful mind; laying aside all bias and prejudice, which prove fatal to the reception of new ideas.

It is only when one comprehends the whole argument, the logical and sequential chain of reasoning, and not till then, is one entitled to pronounce judgment. To attempt to refute before understanding, is folly. If we do not examine and analyse the facts, our judgment has no value. Intelligence is the capacity to discern the essentials from the unessentials. The endeavour to establish those essentials which are the quality of the highest mind and the outcome of most profound thought, should be the purpose of man.

There are three things to be considered with respect to the Douglas Proposals: (1) Are they good for the community as a whole? (2) Are they practical? (8) Can they be easily put into practice? The answer to these three questions is—Yes.

DISEASE OF THE ECONOMIC BODY.

"We have left undone those things we ought to have done, and we have done those things we ought not to have done, and there is no health in it."—*The confession*.

"What is morally wrong cannot be economically right."

In any argument there must be some common ground upon which to base one's reasoning. We will assume then that the economic body is diseased. An assumption which is in truth a fact. Proof is only too obvious. Poverty, unemployment, strikes, lockouts, reconstructions and insolvencies, are all symptoms of the disease. We have, on the one hand, producers both eager and anxious to produce both goods and services. On the other hand, a large and increasing body of consumers in direful need of these things, anxious to receive and consume them. But the pre-requisite of consumption is distribution, and the means of distribution—**Money—that link which connects producer and consumer, is lacking.** Hence want goes unsatisfied. In addition to this, we have debts, both public and private, piled up to sums undreamt of a few years ago, and **no hope of paying them**.

Here, then, surely, is sufficient evidence to satisfy the most exacting person. And the cure? Neither statesman, politician, publicist, nor economist hold out the faintest hope. Indeed the palliatives suggested and offered only serve to excite the disease in some part or other, and **all**

retard the cure. Meanwhile, there is quite a considerable and growing body of opinion, which realises that the disease is epidemic—common) to the civilised world—and that it must be cured, or society, the patient, will die.

SO-CALLED "CURES."

"There's a thousand hacking at the branches to one who is striking at the root."—Thoreau.

"An adequate policy must include finance, not alone for 'bread and butter,' but for deep and wide culture."—Henchard Brandford.

Work Harder, Consume Less, Save More.—There are those who are ever ready to tell us both the cause and the cure for our ills, and prominent among these are the people who say: "We must work harder, consume less, and save more." This, mark you, is by no means meant as a temporary policy. It holds out no hope or promise that if we do these things for a time, that we can then stop doing them. It says: "Do these things all the time, or else you can never prosper"! How we can prosper until we stop doing them, is not explained. Does not prosperity imply ease and leisure, and respite from "hard work"? or is it the hurried and feverish life of the bee we must look forward to? or the perpetual toil of the convict?

Lower Wages and Longer Hours.—Others prescribe lower wages and longer hours. Surely it is quite clear that lower wages reduce purchasing power, and a reduced purchasing power results in less goods being sold, and so less being produced, and hence less employment! That is surely obvious enough to anyone. As to longer hours: this may or may not increase production; but suppose it does, how can "lower wages" possibly increase the means to buy the goods produced? One of our most serious problems to-day is, to sell and recover the costs of the goods that are now produced. To what purpose, then, will the "longer hours" increase production, if we cannot buy the greater output?

Higher Wages and Shorter Hours.—So widely do the doctors differ, that the prescriptions differ *in toto*; and so we are urged to adopt "higher wages" and "shorter hours" as a cure. This would result in an added cost to industry, which would have to be passed on and recovered through prices of goods, which means that increased wages would be swallowed up in **increased prices**. A dog chasing its tail would be amusing compared to this sort of thing.

The Capitalist System.—Others attribute the trouble to the "Capitalist system" with its "enormous profits" and "exorbitant interest charges." They advocate "nationalizing" industry. Well, we have national railways, national irrigation schemes, a bank, and various other nationalised concerns; but with the exception of the bank, which has thriven wonderfully on quite **orthodox banking principles**, the other instances of nationalisation are not even sound business propositions. Some go so far as to talk of expropriating the "capitalist." Russia has done so, repudiating her debts also, and thus securing the whole of the natural resources and productive machine for nothing, and has substituted what is called "Communism." But the experiment has proved an utter failure in **solving their economic problems**. Poverty, want, and unemployment are no nearer solution in Russia than here. The people of Russia have still to bow down before the altar of Mammon and worship at the shrine of the Grim Goddess Finance. When the Marxians realise that the "selling below financial cost" of the Douglas Proposals gives them the "surplus value," and more, they will have taken a big step towards getting it. And, further, they will see that it can be gained without upsetting things.*

Rationalisation or Reduction of Costs.—Of this "cure" we shall hear more in the near future. It means improved technique in production, up-to-date factory equipment, labour-saving, *i.e.*, wage-saving, machinery, hence more unemployment and less purchasing power distributed to buy the goods produced. Let me show how this works out. Dr. Northcote, of Messrs. Rowntree, speaking at the Industrial Congress at Oxford, said:—

> **"One of the most pathetic aspects of modern industry is the inability to, find work for men and women willing to work; and one of the hardest tasks before anyone is to justify industrial organisation and to explain why factories so well equipped and so well run are unable to find employment."**

The explanation is simple. The firm had "rationalized" their factory. It had been reducing costs by installing up-to-date labour-saving machinery, and so had to discharge a number of their workers. Unit costs can very soon be reduced by using automatic and semi-automatic machinery. But of what use is that if the machines, by depriving men of both work and wages reduced purchasing power, leaving the goods unsold? Machines are

*See Appendix F.

a "cost"; and that cost must be recovered through price. But since no person receives a money income as the' machine's "wages" to offset the machine cost, how can any person or the community have the money to pay that cost in prices, and so get the goods? Here is another instance of "reducing costs":—

"An automatic machine in use in the U.S.A. will produce 73,000 electric bulbs every 24 hours, thus displacing 2000 hand workers for every machine installed."

"Reducing costs" has hardly begun in Australia, but it is coming, and the inevitable results will follow.

The Midland Bank (England) has reduced its annual salary cost by £85,000 by installing accounting machines, and it hasn't equipped all its branches yet.

"CURES" FURTHER EXAMINED.

What are the facts concerning these "cures"? The "work harder" cure is a delusion. We cannot already buy the goods we produce to-day, nor can we sell the "surplus" products at a price that will pay the cost of production, so why "work harder" to produce more? It is obvious to all, that the trouble of the whole world to-day is: that it cannot sell the goods produced. Consequently to "work harder" and produce more must intensify that problem. One might imagine we actually live in a penal settlement, and "hard work" the price we must pay for living! The absolute fallacy of this "cure" will be quite evident later, for readers will see that all the hard work and most of the easy, can be done by machines almost without any aid from human labour.

Consuming less and saving more is another fallacy. This can only result in less money being spent and therefore less goods being sold; while every manufacturer and retailer is clamouring for a greater sale and consumption of goods. The solution lies rather in consuming more and saving less. Thrift has ceased to be a virtue. A "saved" acorn will never become an oak-tree.

LOSSES EQUAL PROFITS.

"This, is the sorry compensative."—Lamb.

As to "profits," the facts are these: Taking the English Board of Trade as our authority, from 1862 to 1916, £8000 million's were invested in British Companies, and the losses during the same period amounted to over five and a half thousand million pounds. Futher, for the year

1921, 185,158 corporations in the U.S.A. showed a total deficit or **loss of nearly four billion dollars;** and 171,239 corporations, on the other hand, showed a nett profit of four billion dollars. Profits are balanced by losses. It cannot be otherwise. Industry as a whole being directly or indirectly the source of practically all incomes, cannot possibly recover from consumers more money than it pays them; so that if one industry does succeed in getting back more than it individually pays out, and shows a "profit," it can only be at the expense of some other industry which recovers less than it pays away, and shows a "loss." The hits are always noted, the misses are passed by. Moreover, if a manufacturer or merchant refuses to accept profits due to rising prices, he might soon find himself in the Bankruptcy Court; for he has no option about accepting losses due to falling prices.

Interest.— Taking the peak year of the Australian banks (1921-22), we find that the profits made by these banks from interest charges amounted to £5,750,000. This sum, distributed equally per capita, would give each person in Australia 4½ d. per week. If one thing is more certain than another, it is that 4½ d. per week will not purchase our economic salvation.

INTEREST FREE NATIONAL CREDIT FOR PUBLIC WORKS.

"You seem not to have joined with the worst, yet you keep aloof from the best."—Milton.

This is another "cure" put forward by certain members of the Labour Party, and which has received considerable notice both in the Federal Parliament and in the Labour press. The examples cited to prove their case are: (1) The £45 millions in notes that were issued at the beginning of the war; (2) the Guernsey Market House.

Now there are certain facts pertaining to the note issue that should be known—and noted. Between 1914, and 1920, the Australian currency, of which the note issue formed part, increased by 130 per cent.; and during the same period, and mark you! as the direct result of this inflation, wholesale prices also rose 130 per cent. Experience shows, too, that retail price levels rise **above** wholesale price levels, so that the rise in retail prices must have been considerably greater than 130 per cent. It is estimated that consumers paid (approximately) some £600 millions in increased prices, due to the increase in currency and bank credit.

Profits amounting to over £17 and a half millions, were also made from this note issue, which means plainly that £17 millions have been extracted from consumers in one form or another. Moreover, the public will still have to go on paying, because the works still stand as profit earning assets. It will be quite evident that whatever money, as interest, was saved by the financing of public works in this manner, the saving is completely outweighed by the sums of money taken from the community in increased prices for goods and services.

A FIRST STEP ONLY.

"All things are double, one against the other."—*Apocrypha*.

The Government should of course create its own credit, and the practice of issuing its own 110tes is a first step towards freeing us from bondage to **The Supreme Power of Finance.** But, and this cannot be over-emphasised, **it is only a first step.** To stop at that, fancying we have got a "cure" for our economic ills, is much the same as if a man, seeing his son drowning, and himself unable to swim, jumps into the water in the attempt to save the boy.

The last case would be worse than the first. When Mr. Yates (Labor Member) advocated the issue of notes for public works in the Federal House, he was repeatedly asked for the scientific basis of this course, but could not give one. A fact in itself which suggests a fatal weakness in the case.

The simple fact is: that to create "national credit" for public works, is only to bring about a reform **within the ambit of orthodox finance.** Coincident with this idea is the tacit acceptance of orthodox economics; and while this is so, it cannot solve our problems any more than the father could save his drowning son. Mere reform is useless. **What we need is a complete change in our credit and accountancy systems, and in the whole financial and economic policy of the country.**

Inflation by note issue by bank credit is bound to result in inflated prices. Nearly every country in the world has tried the game, which at its best is but a palliative. At its worst, a plaster on a running sore; and the more the sore is plastered the more it runs.

GUERNSEY MARKET HOUSE.

"A little less, and oh! what worlds away."—Browning.

In financing the building of the Guernsey Market House by the issue of written or printed bits of paper,

making them at par with legal tender, Governor Brock did a great thing. He demonstrated that "money" is a costless thing to make, and that "tickets" served in the distribution of goods or as payment for services, quite as efficiently as gold coins. But that was a century ago, and if we still stand in the same place as Governor Brock, it simply proves that we have forgotten nothing and learnt nothing, for a hundred years. Students of Social Credit now know that under that scheme, the Guernsey folk paid at least twice for their Market House. Once through increased prices following the creation of the extra money, and again as a rent charge in the price of goods—the stallholders sold. As an actual fact, the building was paid for when finished. All the accounts were settled, the wages had been paid, why, then, should the money-tickets be recalled just to be destroyed! The idea is opposed to all reason.

To-day, nothing but a **gift** of money to consumers will solve the problem. Money or credit which comes into existence as a debt to be repaid, or to remain as a source of profit, is worthless. A point which will be dealt with more fully later.

"TWO FEET DEEPER."

Such, then, are some of the "cures" when the facts are revealed. I am reminded of Pat, who, having sunk a shaft twelve feet deep in search of gold and had no luck, forsook it. The next man who came along thought he'd have a try, and sinking two feet deeper, struck it rich. Pat, upon hearing the news, vowed he'd never leave another shaft till he'd sunk two feet deeper.

My counsel, then, to those who have only got so far as one of the alleged "cures," is to sink "two feet deeper." Price and purchasing power are two ends of the same thing'; and they who cannot make them meet have nothing to contribute to the solution of economic problems. The so-called "cures" quite overlook this fact, and therefore must be rejected wholly or in part.

THE PROBLEM STATED.

"Peace hath higher tests of manhood than battle ever knew."—Whitman.
"It's not very easy to resolve why grass is green."—Sir Thos. Browne.
"Set your faces dead as flint, for great is the prize before you."—Whitman.

Two thousand three hundred years ago, Aristotle stated the problem thus: "**How to contrive that Plenty, not Poverty, should become permanent."** During the whole of that long intervening period of three and twenty centuries, until Major Douglas discovered the solution, that problem remained a sphinx-like riddle. No one had solved it. In the terms of Douglas, the problem would run thus:—

> **"How to make purchasing power in the hands of consumers equate with the collective prices of consumable goods on sale."**

All Social Credit students claim unreservedly that this problem is solved, and all that needs to be done, is to put the proposals into practice. Everyone would share in its benefits; no one would be penalised.

ECONOMIC BODY AND ITS FUNCTIONS.

"The right word is always a power, and communicates its definiteness to our thought."—George Eliot.
"Function carries pleasure with it, but what determines, makes, is good or bad, is in the end of function."—F. H. Bradley.

Without clearly defined terms, it would be useless to discuss the Douglas Theorem; it being an entirely fresh analysis and synthesis, and the result**—New Economics.** Readers must bear this constantly in mind, as the new economics will no more fit in with the old economics than a piece of glass will patch an old boot.

Supporters of the Social Credit Movement know that the trouble is not between capital and labour. They are ONE—the producers—and as such indivisible. Divided, they are helpless. They are both striving after the same thing—economic security. An absolute impossibility for all under the present system, because there is not enough money to go round. Hence the gains of one lot of capitalists are balanced by the losses and insolvencies of others. The good wages and employment of some workers are balanced by low wages and unemployment of others. The whole trouble lies between Finance and Industry. Everything is possible to Industry given the money; nothing is impossible to Finance given the will.

THREEFOLD CHARACTER—PRODUCERS, CONSUMERS, MONEY.

"In economics, as in religion, there should be no toleration of a multiplicity which is not reducible to a unity."—A. R. Orage.

Taking a natural or reasonable view of the economic body, it will be seen to partake of a threefold character (functionally). It comprises three factors, namely, Producers, Consumers, and Money—the hand-maid or servant.

The Producers may likewise be divided into three, namely, the technical staff, including the scientists; the clerical staff, and the routine workers. These classes of employment must be taken to include **all** engaged in productive and distributive and cultural activities.

The function of the Producers is to produce and deliver goods and services conducive to well-being to every individual comprised within the community, without let or hindrance, up to the point of abundance.

The function of the Consumers is to consume, for without consumption there can be no production; and the crown of all production is consumption. When consumption fails, production fails also.

The function of Money, *i.e.,* the means of distribution (for distribution is a pre-requisite to consumption) is to serve as oil, which allows and lubricates the free circulation of goods from the Producers to the Consumers; being in simple fact, a "ticket" giving its holder a claim on goods and services: it is really a license to live.

WHAT IS WEALTH?

"Wealth is the possession of useful articles which we can use."—Ruskin.

Life depends from instant to instant on a continuous flow of energy. Hence wealth (i.e., goods and services, the necessities of life) partakes of a **flow, not a store. Wealth is a revenue and cannot be Stored.** If, by way of illustration, the wheat does not "flow" from the wheatgrower on to the miller, and thence to the baker, then on to the consumers in the form of bread, it cannot and does not conduce to the well-being of people. If wheat remains in the granaries it nourishes no one. It must be consumed—eaten as bread—to nourish and sustain human beings; and only when used in that way is it WEALTH. And this applies to the thousand and one things that are needed in the course of life.

Wealth means prosperity, happiness, joy—all abstract qualities; and you might as well try to store up the one as the other. Prosperity and happiness demand that the flow of wealth be continuous and ample; and without that adequate flow we get ill-being, adversity, and sorrow. Until there is a common prosperity, a common happiness, a common joy, "The Commomwealth" will not be a **Commonweal.**

UNEMPLOYMENT.

"A multitude of impotent folk . . . waiting for the moving of the water."—St. John.
"Not till the sun excludes you will I exclude you."—Whitman.

We have agreed that the economic body is diseased. It follows therefore, the economic body as defined being composed of three members, that the disease must be seated in one or more of these. So let us try by a careful and thorough examination of each member to find out what the disease is, where it resides, and its cause. Unemployment is a symptom of the disease, and shall have our attention first.

The talk about unemployment has been, and is, both endless and useless. It has been said that unemployment is an "industrial necessity," an "insoluble problem," and "a disease." It is none of them. It is simply undeniable proof that the machine power of production renders human labour from all unnecessary. Admittedly it is a symptom of disease, but assuredly not **the** disease. If the trouble lay in the unemployed themselves, such as their being unemployable or unfit for work, then such a condition, were it a fact, would surely be reflected in a scarcity of goods. But there is no scarcity of any commodity, as everyone knows. This, then, is proof that the disease must lie elsewhere.

The Commonwealth Statistician has told us that, "The number of permanently unemployed in Melbourne alone is 10,000, and in the whole of Australia, 150,000"; and this, bear in mind, is for normal conditions. The number when this is written must be over 300,000, **and it is still increasing.** It is the same sad story everywhere. It is stated that there are approximately thirty millions of unemployed throughout the world.

RESULT INEVITABLE UNDER ECONOMIC POLICY.

"Yet lest this which I affirm be thought my single opinion, I shall add sufficient testimony."—Milton.

How can we hope to escape the inevitable results of our financial and economic policy, and the effects of modern machine production? The very end and aim of mass production by modern machinery is to produce the maximum of goods and services with the very minimum of human labour. Consequently with the constantly increasing use of automatic and semi-automatic machines, unemployment is bound to increase. **Mass production demands mass consumption.**

Why, for instance, should the Westminster Bank invest £100,000 in automatic office machines, and instal them in all their banks, if it were not to save human labour and labour costs? Every stage of the figure work, from the time the customer hands in the cheque, to the final balancing of the bank's own ledger, is done by the various types of machines. And if other offices instal these machines, as they are doing, where will the disemployed clerks find work? No work, no money; no money, no food. That's the "law" laid down by Finance.

LABOUR-DISPLACING INVENTIONS.

There lies before me a list of some fifty labour-saving machines perfected or invented in the last few years. Here are a few:—

Televox, an electrical mechanical man, obeying the human voice.
Automatic stoker for railway engines.
Spray painting machines.
Automatic bread wrapper.
Automatic apparatus for stoking on vessels.
Automatic device for unloading ships and railway trucks.
Mechanical cotton picker.
Electrical mining machine, dis-employing two men out of every three.
Iron Chink for gutting and cleaning fish.
Automatic cutting-out machine for the clothing industry.
Automatic bottling machine.
Automatic machine to make automatic machines.

But why go on? The first and last given, should at least cause us to do a little thinking—"to dig two feet deeper."

How can unemployment be avoided if such machines are being used in industry? And still further evidences will be given later.

MACHINES DO NOT CREATE EMPLOYMENT.

Surely it is impossible to sustain the argument that the use of machinery creates employment. If one will reflect a little one cannot avoid seeing that the idea is contradictory. A labour-saving machine is a **wage**-saving machine. If it were not, no one would adopt it. Therefore it cannot be admitted that an amount of money equal to the machine cost is simultaneously paid a way, giving employment, even in the making of machines; because in that case the total sum of wages paid away by industry would be the same, and the machines would not be labour-saving and wage-saving, as undoubtedly they are.

It is true of course that machines increase the community's productive capacity. But of what use is that if every machine displaces men and therefore deprives people of their wages which are necessary to buy the goods? **Moreover, it is a fact that at no time or place is this capacity in full use.** For the very obvious reason that machines are a cost in production, and this cost is included in price. But since consumers do not receive as income money equal to that cost they cannot pay it in price and demand the full use of the machines. During the war, as an exception, we got an idea of what industry could do; and even then the engineers were only just getting into their stride as the war ended.

IN U.S.A. FULL CAPACITY NOT USED.

The President of the Studebaker Corporation, recently told a pressman:—

> "That under continuous capacity operations for a full year, the United States motor industry was in a position to turn out between seven and eight million cars. (Last year's output was only four and a half millions). General and specific manufacturing conditions **never permitted realisation of potential capacity.** There was hardly a big industry in the United States that was not over-built from the point of view of production. The aggregate capacity of mines, smelters, and mills would, under full operation, swamp the country with minerals. The steel, textile, shoe, wool, and food industries were all over-built, and had been so for many years."

President Hoover has stated that one and a half million in the U.S.A. are unemployed owing to labour-saving machines. This must be a very conservative estimate.

WAR'S "UNEMPLOYED" NOT WITHOUT MONEY.

Here, permit me to digress. During the war millions upon millions of the best workers were "unemployed," *i.e.*, not engaged in the production of goods, but quite the reverse. There was no trouble **then** over "unemployment." Yet, with all these many millions "unemployed" production never before reached such heights. It was colossal. Even our own exports rose nearly £60 millions, and this with some hundreds of thousands of our best workers at the war. Not a word was heard **then** of want and poverty. Why? Because all these many millions of men were not dis-empayed. They received money. They fulfilled their functions as consumers. Whereas the unemployed of to-day are dis-empayed, and therefore cannot properly perform their function as consumers. Pay these men and women as the soldiers were paid; feed and clothe them as they were then fed and clothed, and there would be no outcry about poverty, want, and destitution. Trade would boom. **It is quite practical, and it would pay.** Unemployment in contact with money is only leisure, and leisure is not synonymous with idleness. Only consider what the world owes to "men of leisure"; and, on the contrary, what the world has lost by men and women being deprived of it!

NO CONNECTING LINK.

" 'It's a mad world, my masters,' but we cannot rest with that apostrophe."—W. T. Symons.
"They sought and they could find no refuge—'twas the blind who led the blind."—Shelley.

The trouble is that there is no connecting link-no relation between the increased power of production, and the power to increase consumption. One cannot escape the conclusion that in dis-employing labour, machines disemploy themselves; for these very machines dis-employ the individuals who, as consumers with wages in their pockets, are the buyers for the goods made. And if they cannot buy the goods, the machines must stop making them. Let me call a few witnesses so that you may hear what they have to say on the subject of machines displacing them:—

"It is important to point out that industry may

decline in its capacity to provide employment, while **increasing in its productive** capacity."—*London Times.*

"The direction of employment is downward. Pay rolls are down. New inventions, labour-saving devices, improved technical processes and other short cuts are putting men out of a job. It hits all lines. We are in a period of what might be called '**workless prosperity.'**—*Trade and Commerce Journal.*

"It is noticeable that following depressions, employment fails to reach its former levels, **even though production has exceeded previous levels.** Fewer workers are taken back. In lean periods business finds a way of **conserving on man-power,** with the result that **there is a steady flow into a growing and stagnant pool of unemployment**."—*Trade Journal.*

The President of the Country Roads Board, speaking of his tour through the United States, said:—

"Almost all the work on the roads is done by up-to-date machinery. Hardly once did I see gangs of men operating."—Quoted from *The Age*, Melbourne.

Mr. Moser, General Manager of the American Cotton Growers' Association, speaking at the recent Cotton Congress, said:—

"The forty thousand men now engaged in cotton growing in the U.S.A. would be replaced very rapidly by a few large corporations."—*Manchester Guardian.*

And, of course, when this does occur, the large and powerful concerns will employ "the mechanical cotton picker" and other labour-saving and wage-saving devices. And so one could keep piling it on *ad nauseam*. But the point to seize here is: that all social and economic progress takes place by the displacement of old methods by new ones; and that is precisely what is taking place in the industrial world to-day and so causing unemployment.

GOLDEN AGE OF LABOUR.

If we study conditions in the 14th and 15th centuries—"The Golden Age of Labour"—we find that notwithstanding that the mechanical power was derived from primitive water and windmills, the worker enjoyed a comparatively high standard of living, in spite of, and in common with their much greater leisure. The work-less man was then called a "sturdy rogue" and punished. Proof

positive that there was no unemployment problem then. Nowadays, in spite of the immense progress made in machine production, life for the workers, and for large numbers of those people known as "the middle class," including those of the manufacturing and commercial classes, appear more strenuous, less secure, and broadly speaking, less satisfactory than ever. The desire for a sense of security since the war has become almost poignant and pathetic. No one is sure his job will last, or that his business is going to stand, or that his dividends will continue to be paid. And this notwithstanding that a just and equitable system of economics is all that is required to give birth to a new life of abundance, leisure, culture, and economic security for ALL!

OBSOLETE IDEAS.

"The old order changeth and giveth place to the new."—Tennyson.

One of the stern realities of life is, that for man to live, work must be done. But it does not matter whether the work be done by human hands or mechanical power, so long as the goods and services are distributed to consumers. To anticipate the objections so often raised: "That he who does not work shall not eat"; and that "man must earn his bread by the sweat of his brow" ; and the "Work-State"* of the Marxians, permit me to point out that the doctrine of Paul, the "curse" of Adam, and the dogma of Marx, are all old—ancient, and obsolete. They have no place in the present circumstances of machine production for which a **New Economic** doctrine must be formulated.

The fact is, the Pauline doctrine has blunted our minds to the lesson of: "Consider the lilies of the field how they grow." "Sweat" has been raised almost to the highest place among the virtues. Mechanical science has reversed the "curse" of Adam, and flung wide open the gates of Eden; and to cling to that "curse" is a betrayal of the creative spirit of man and the fruits of the spirit. It has given us (if we will take it) an Age of Abundance and Time for Leisure. Applied science and the work-state cannot exist side by side. Certainly not at the stage industrial science has reached to-day. One or the other must be placed on the retired list.

MACHINE POWER.

Life is consumption from the cradle to the grave—consumption of the pristine energy of the sun or solar.

*See Appendix F.

energy. For man, the physical problems of life are energy problems, and they are solved. Professor Soddy tells us that a single machine will do the work of tens of thousands of horses, and each horse-power is equal to ten men. He says, too, that in the past few years mechanical productive power has increased nearly 4000 per cent., and man-power per hour, over 100 per cent. In the face of these facts, is it not reasonable to conclude that less men would be employed, and that there should be a much larger and cheaper distribution of goods? But we all know this is not so. Under the present financial and accountancy systems it is an absolute impossibility.

PURPOSE OF ECONOMIC WORK.

"Work! By the blushes of Aurora and the music of Memnon, what should be a man's work in this world?"—Thoreau.

"Ah! Why should life all labour be? We only toil who are the first of things."—Tennyson,

It would we well before going further to refer to the purpose of economic "work", *i.e.*, forced activity, as opposed to voluntary activity. There is the case as stated by Jack London in the formula:—

"We go to work
To earn the cash
To buy the food
To get the strength
To go to work
To earn the . . .
To buy . . .
To . . .
R.I.P."

If that is so, and for the mass it looks very much like the truth, then we may take it that the food, clothes, and shelter are the work-fuel for a human-power-machine, whose furnace is his stomach, which must be stoked with a daily ration of fuel to generate his power for the next day. Or, we may view "work" as a sort of moral discipline—economic rules—for the purpose of safeguarding one's character. In that case it is a system of government based upon the idea that "Satan finds some mischief still for idle hands to do." The fact is ignored, seemingly, that busy hands can do more mischief than idle hands. This idea of work as a moral agency also assumes, and quite foolishly . . . too, that all work—voluntary activity—not prescribed by the Economic Rulers, is equivalent to idleness. Further, it leaves the power of enforcing this

"moral discipline" in the hands of the financial authorities **who control and direct economic policy**, without any reference as to what is good or bad for the individual!

TRUE PURPOSE OF PRODUCTIVE SYSTEM

Now if you will turn back to the section, "The Economic Body and Its Functions," you will see that the purpose of the "Producers" as there defined differs fundamentally and vitally from those just given. Whereas the one makes the working of our industries and primary production dependent upon the observance of moral rules or codes enforced by financial power, the other regards the productive system purely as a machine to be used as the community has need of its products. And whether readers agree or not, this latter one is the true purpose and function of a productive system, and the one upon which the Douglas Proposals and New Economics is based.

THE PRODUCERS

"If you will now unite in your complaints they (the bankers) cannot stand under them."—Shakespeare.

It is a fact, an irrefutable fact, that there is no problem awaiting solution in production. The industrial system is more than equal to any demands that may be made upon it. The war proved that once for all. You have only to give the order, backed, by money, and industry is capable of producing anything and everything that may be required of it. It can produce anything from a toy yacht to a fifty thousand ton liner, or from a Channel Tunnel to a North Shore Bridge. And this, mark you! with a continually decreasing employment of human labour. Much of what has already been written relating to unemployment due to the use of machines proves this. The producers are only too anxious to produce more goods and provide more and better services, in any quantity and of any kind. In return they ask no more than the payment of their costs, plus a fair profit and good wages to which they are rightly entitled, but do not always get. At present the one and only problem with producers is not to **make** goods, but to **sell** goods.

The research work of industrial efficiency engineers, made, with a view to obtaining a greater output as well as a reduction in labour costs, reveals the fact that the rate of production per unit of labour has increased by hundreds, and in some cases by thousands per cent. This

being due to solar energy in the form of electricity and steam, taking the place of human muscular energy. The "work" of the world is thus transferred from the backs of men on to the back of machines. The late Mr. H. L. Gantt, an eminent efficiency engineer, has told us that at the end of the war, the industrial efficiency of the United States of America was only 5 per cent. efficient. And that at a time when she was astonishing the world by the quantities of goods she produced, and in spite of the fact, too, that three million of her men were away soldiering unemployed—and therefore not engaged in production.

WONDERS OF MACHINE PRODUCTION.

"Come, let us now sing famous men . . . without these a city cannot be inhabited."—*Apocrypha*.
"If men live to work, rather than work to LIVE, science is mad."—Professor Soddy.

Here are a few more striking instances of the wonders of machine production:—

The Lancashire cotton industry can supply, by working only one full week, the total cotton requirements of Britain for one year. '

Two months' work of the boot factories will do the same as regards footwear.

One man tending 25 machines will produce 1600 socks a day.

A bricklaying machine used by Arrol and Co., Glasgow, will lay 1500 bricks per hour.

The "Wade mechanical woodman" enables one man to do the work of 30 men.

There is a machine for stripping currants off the bunch, which disemploys 40 women, and does the work in less than half the time.

One man with a machine will turn out tens of thousands of tins per day to can those currants when made into jam, and the fish that automatic fish-cleaners prepare for canning.

The Boston Railroad Co. has a freight-car handling device to take charge of a million cars per year. One man directs the whole operation, thus saving the labour of 400 men and so reducing labour costs by the wages of the 400 men.

The Tube Railway in London has in use automatic booking clerks, doing all that is required in the work of issuing tickets. They even give the exact change.

An electrical power pIant near Berlin, producing 24,000 kilowatts, employs 200 workmen and 50 clerks.

Had it been equipped with less modern machinery, not less than 3000 workmen and 700 clerks would have been -employed.

In the United States there is a huge factory filled with practically one single machine turning out motor car frames almost untouched by human hands. The output numbers no less than 9000 per day, **and only 200 men are employed.** No less than 45 frames per day being the output per man.

On the East Loddon Estate, Victoria, a youth and a man on the bags, harvested 800 acres of wheat in three weeks. In the days of the stripper, it would have taken five machines and 15 men to do the same work in the same time. An improved machine does the work in even one fourth less than this time.

It is a startling fact that a loaf of bread can be produced from the tilling of the land to the wrapping of the loaf in paper for the consumer, by machines and their operators. Thus agricultural workers, millers, and bakers are **disemployed.**

In the poultry farming industry, there is in California a hatchery producing eight million chicks in a season. Some eighty tons of eggs are used. The whole of the incubating system is worked by electricity—touching buttons. One such hatchery in Australia would disemploy and disempay nearly every man now engaged in poultry farming and about seven-eights of its capacity not drawn upon.

Here is an instance that should interest the Brisbane City Council, and, indeed, all councils. At St. Louis, where sewerage work is being carried on, thirty-three machine operators, aided by thirty-seven labourers, are doing the work of **7,000 pick and shovel men.**

An automatic mechanism producing 73,000 electric light bulbs every 24 hours, disemploys 2,000 hand workers for each machine installed.

Here is a final instance. At Henry Ford's River Rouge Works, one may stand on the bridge of the blast-furnaces and see the raw material being carried in automatically, and in three days' time, the same material comes out at the other end of the factory as farm tractors, travelling under their own power. Raw material being actually transformed into labour-saving machinery in the miraculous time of three days. With these same tractors and their operators the work on a 5,000 acre farm may be done in 25 days, leaving 340 days for the men to swell the "growing and stagnant pool of unemployment."

If land and sea, mines and manufacturies produced up to potential capacity; or if all factories produced like Henry Ford's does, the world would go bankrupt. Think it out.

SHORTER HOURS NO SOLUTION.

It has been said, and undoubtedly will be said again, that, this being so, the solution is shorter working hours, so that all may keep their jobs. But what good purpose can possibly be served by bringing back into that electric light bulb factory the 2,000 men displaced by the machines? 0r in another instance, setting the 7,000 pick and shovel men at work on the St. Louis sewer? In this particular case, assuming an eight hour day, and each man had to do his bit, his shift would last 44 minutes! And assuming, as we must, that the pay-roll would stand paying everyone of these men a day's keep for five minutes' work, it would be cheaper—that is, the costs would be greatly reduced, to pension them all off at their keep, and call in the few that were wanted, paying them something over their keep.

The machine production part of the problem cannot be over-emphasised. Its importance becomes obvious when reading the instances cited; and although Australia has hardly begun to rationalise her industries, this is what it means when rationalisation is applied. And it is bound to be applied. "Costs must come down," and there is no reason why costs should not come down, but there is a sound reason **why workers should not be disempayed and without money when costs do come down.**

COMMUNITY'S HERITAGE.

"All men have a right to all that all men have achieved."—Emerson.
"Economic freedom is man's birthright, for without that, there is no other freedom."—Unknown.

All these amazing discoveries and inventions, by virtue of their connection with human wants, have been developed from a few primary germs of thought. Later discoveries have only embodied, preserved, and added to these which register our economic progress. **The knowledge of invention and process is our cultural heritage and a communal asset.** All productive capacity springs from a social source, and being social in its origin it should be administered socially.

At one time the theory was: the more machines, the fewer jobs, so the workers set about smashing the

machines. Another theory was: that new industries would spring up so rapidly, that labour could be for ever absorbed. **Now, commonsense says:** the more efficient the machinery, the more men can be set free—economically free—to do what they please at their leisure. The plain fact is, that in the not distant future, a comparatively small group of Producers will be accredited to carry out a Social Credit policy by, and for, a democracy of Consumers; and it will be as great an honour to belong to the group of producers as it now is to belong to a test match team. A time when work shall be play, and play life, three in one and one in three.

The problem is, then, considering the vast number of people disemployed by machine production—how **to distribute purchasing power in place of the wages and salaries formerly paid to the disemployed workers, to enable** the goods and services produced to be bought and paid for. **That problem Douglas has solved for us.**

Before leaving this aspect of the question, it should again be noted that in the Douglas Proposals, the industrial system does not exist to find or make work for men and women, any more than a factory exists solely for such a purpose. The industrial system exists **to produce and deliver goods and services to all individuals living within the community.** Its innate vigour, vitality and energy enables it to do that easily, and it will gladly do it when collective purchasing power squares with the collective prices of goods on sale.

THE CONSUMERS.

"Behold, it is good and comely for one to eat and drink and enjoy the good things."—*Ecclesiastes*.

The only thing that need be said of the consumers is, that nearly all of us require more goods and better services; but owing to the lack of money we have to go without. The right to buy and the right to sell should be equal. The goods are always for sale. Here again we find, as we found in unemployment, symptoms of the disease. It is evident in the fact that only a portion of the potential capacity of production is drawn upon. The disease we have still to locate, and as the remaining member of the economic trinity is MONEY, it must be here.

MONEY.

"Orthodox economists . . . do not understand money. For an exposition of this great mystery, we must turn to Major Douglas and his followers."—*The Bank Officer*, London.

There is perhaps no subject that affects our lives so closely, so intimately, so continuously, as money. Yet, put the questions: What is money? Where does it come from? Where does it go to? to whom you will, and the lack of knowledge revealed is stupendous. A thorough knowledge of the origin, nature, function, and end of money, would make people realise—consciously realize—how simple the whole economic and financial problem is. Fortunately people are beginning to be interested in the subject.

"Money," says Professor Walker, "**is any medium which has reached such a degree of acceptability, that no matter what it is made of, no matter why people want it, none will refuse it in exchange for his products.**"

Douglas defines it thus: "**Money is buying power, an effective demand for goods and services; conversely, anything that has buying power is money.**"

ALMOST ALL MADE OF PAPER.

In Australia as elsewhere, practically all money is made of paper; but whatever the material used, the one characteristic it has in common is **confidence;** without that it is worthless. It is "the substance of things hoped for, and the evidence of things not seen." The very obviousness of this primary and vital fact seems to be the cause of its importance being overlooked. Indeed, it is at this point that one comes in contact with the "fixed idea." Mere inertia prevents most of us from questioning "facts" which have been imposed upon us, and accepted without thought. The fruits of the tree of knowledge always expel us from some paradise; and even the paradise of fools is a pleasant place to live in so long as it is habitable.

NOTES AND COIN NEGLIGIBLE FRACTION OF "MONEY."

In using the term "money," please do not suppose for a moment that the term is intended to cover only that small fraction of notes and coinage. These are only the small change of a nation's money currency, the mere pocket money, and may be almost ignored. The reference is particularly to the £300 millions in "deposits" in the trading banks, the £230 millions in the Savings Banks, and discounted bills and other credit instruments which will probably bring the total up to £550 millions. The term also embraces the £2,500 millions (approximately) that pass through the banks' Clearing Houses in a normal year, and the clearances of country and local centres. **These sums do not include notes or coins, yet they are "money."** And when we compare the sum of this money with the £45 or £50 millions of legal tender, half of which is never in circulation, it sinks into insignificance.

Consider those deposits of £530 millions. Where did they originate? What are they in very reality? **Figures! Just Figures! Mere book-entries created by pen and ink, otherwise pure illusion!** Absolutely necessary, of course, for purposes of accountancy, but having no other purpose or meaning. Face reality for a moment, and then realise fully what a gross illusion it is to believe or fancy these sums of "money" have a physical and substantial existence!

LEGAL TENDER IN CIRCULATION.

There is only some £25 millions of legal tender in circulation. It is in the banks to-day, to-morrow withdrawn to pay wages and salaries: a few days later in the tills of the storekeeper, and thence back to the banks again to continue the same round week after week, month after month, year in and year out, like the wandering Jew—never at rest. **This being so, how is it possible to have all these millions saved and deposited?** How many times must that £25 millions in circulation have been saved to amount to £530 millions? and yet still function as it does—as the nation's small change? Can all the depositors in the Savings Banks withdraw their savings? Yes, if they can draw figures as the customers of the trading banks do.

MONEY A "COMMODITY" TO BANKERS.

"Son of man, hast thou seen what the ancients of Israel do in the dark."—*Ezekiel*.

What, after all, is the truth about this link—money—the lack of which fails to connect the power to produce with the need to consume? Money, to everyone but the banker, is a written, printed, or coined documentary evidence of buying power: a "ticket" given its holder as a claim to goods and services. Money to the banker, however, is a commodity just as much as tea and sugar is to the grocer. But "money," except for the very small and negligible percentage made of silver or copper, is certainly not a commodity. Its quantity does not depend upon the labour of man, since no more labour is required to enter

an overdraft "limit" in the ledger, and draw a cheque for £5,000, than for £5; or to print a note for £100 than for 10/-. Or, we may say; it is as easy for the banker to record an entry in his books for £50,000, as it is for £5, and in so doing **create a loan or overdraft ten thousand times as much as if the entry had been but £5. That's how it is done.** Precisely so! A mere book-entry by the banker **creates "**money," another entry **destroys** it. So true is this, that when the Federal Government repays its overdraft of £18 millions to the Commonwealth Bank, all those millions of pounds will go out of existence—destroyed. And when the Brisbane City Council repaid its overdraft to the same bank, that million pounds no longer existed. There remains no record of it as an asset in the bank's books.

The supply of money is not conditioned by the laws of Nature. It is conditioned by the laws of man. And these laws have reached such a point, that we have to pay to live. This is not rhetoric. It is bald fact.

MONEY MUST FLOW—BE USED.

To function, money must flow. Flowing, its power is dynamic, saved it is impotent. All saved money is defunct purchasing power. Every pound saved means a pound's, worth of goods unsold. As Dr. Johnson said: "Its only use is to part from it." "Money," said Emerson, "is the prose of life, but in its effects it is as beautiful as the roses." "Time is Money," says the most vulgar saw known to any age or people. If you turn this round, you get a priceless truth—**Money is Time.** "With money I can buy for cheerful use the hours which would not in any other sense be mine; nay, which would make me their miserable bondsman." So wrote George Gissing. He knew.

All this being so, the question then is: How can money be made to serve our economic system as a means to distributing the abundance of goods awaiting distribution, and so redeem us from a "miserable bondage" and "to make life as beautiful as the roses"? You should always bear in mind one point, above all, concerning money, and that is: we do not **make** money by growing or making things, or even by working. The banks are the only ones who can **make** money. And actually they do make—in the technical sense—practically all the money in use in a country. Consequently if we get any money as our "own," our plus will mean a minus for some other person who has borrowed from the banks. A fact, by the way, few seem to realise.

CREDIT.

"That which in sober truth removes mountains."—Douglas.
"To-morrow I'll wrestle for my credit."—Shakespeare.
"Tell me, to whom this treasure belongeth."—Piers Plowman.

Now, how did that £530 millions of "deposits" come into existence? It is obvious that some power other than Governments can and does bring money into existence; because, however much the coins and notes go round and round, they still remain the same in total. They do not increase. Major Douglas explained the mystery to the world some twelve years ago, and the Right. Hon. R. McKenna, ex-Chancellor of the Exchequer, and Chairman of the Midland Bank, England (and other authorities have also), confirmed his statement a few years later, in these words addressed to the shareholders of his bank:—

> "I am afraid the ordinary citizen will not like to be told that the banks (can and do) create and destroy money. **The amount of money in existence varies only with the action of the banks in increasing or decreasing deposits. Every loan or overdraft creates a deposit, and every repayment of a loan or overdraft destroys a deposit."**

And he added later: "And they who control the credit of a nation, direct the policy of Governments, and hold in the hollow of their hands the destiny of the people."

That the Financial Powers are controlling the policy of all the Australian Governments, and that they hold the destiny of Australians in their hands, we all know too well, and much to our sorrow.

"CREATE" AND "DESTROY."

You will note how carefully Mr. McKenna selects his words, more especially the words "create" and "destroy" the strongest he can select for his purpose. To "create" means producing something out of **nothing**. To "destroy" means causing that which is, not to be. A statement like this coming from such an authority must be taken as conclusive.

As explaining how loans do create deposits, Mr. McKenna says: "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 upon the bank drawn by the customer and paid in to someone's credit at the same or another bank. **The drawer of the cheque will not have**

reduced any deposits 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 the amount, and thereby a new deposit will be created.**

The banker's creation of money is probably the only known instance of the possibility of lending something without parting with anything, and, moreover, making a profit on the transaction; obtaining in the first instance, his commodity for nothing. Bankers lend, governments and capitalists borrow. Is it necessary to ask: Who has the power? Franklin says: "When you run into debt you give another power over your liberty." All Australians have learnt that lesson and should profit by it.

DOMINATING SUPREME POWER.

> "Where are the liberties that have been left to us by our progenitors? . . . . I wish you would inform us why that power which was a trust should not return to the people."—Milton.
>
> "O Australia! strangled, tied and bound—whither art thou come?"—After Whitman.

The only conclusion to be drawn from these facts is: that there is a Supreme Power which dominates the political, economic, and social life of the nation; a power that determines whether prosperity or adversity shall be ours; whether goods and services shall or shall not be produced and consumed. For, mark you! though we have been told again and again, that we are thrown entirely upon our own resources, it is only true in a sense; fundamentally it is false. We certainly have control over our agricultural and manufacturing pursuits. We can get our wheat, wool, and sugar, by growing it. We can get our own sheep and cattle by breeding them; and we can get our butter and manufactures by making them. **But we cannot control our own money by creating it.** For if we want to make money in the colloquial sense, we must make it first in the technical sense, and fundamentally we have a right to do so. There is no occasion to ask the bankers to do it for us and pay them for doing it.

That this absolute prerogative to "create" and "destroy" money—which is in the last analysis a license to live—belongs exclusively to the bankers, over which neither people nor Parliament possess the slightest control, and to whose dictates all business men must submit without appeal, is a thing which, were it not a fact, would be unbelievable. Just as God is said to make the rain to fall on the just and unjust man's fields, so with the same impartiality does this Supreme Power inflict a money drought upon the whole community with such dire results!

Prior to 1919—the date of Douglas's first articles—in economic writings the generally accepted idea was, **that the bankers only re-lent the money that was deposited with them.** Indeed, it is still the prevailing belief. But a little clear thinking on the facts already given on this point will soon dispel the illusion. Unfortunately, some people would die rather than think, millions do! And it is astonishing the number of people who passively acquiesce in the deplorable state of the poverty-stricken and destitute millions, rather than do a bit of hard thinking.

REAL CREDIT AND FINANCIAL CREDIT.

"Reality shall rule."—Sir Thos. Browne.

Credit is of a two-fold character. That which is issued by the banker being **Financial Credit**, *i.e.*, **the ability to deliver valid money as required;** and **Real Credit,** *i.e.*, **the ability to produce and deliver goods and services as when and where required.** Together these two aspects are regarded as the **Credit of the whole community, having their origin in, and being derived from the collective abilities of the people working together.** It follows, therefore that this credit is, rightly, Community Credit; and it should be administered for the benefit of **every** individual in the community.

Real Credit includes: all our natural resources, discoveries, inventions, industrial processes, and all productive capacity. The knowledge of these things, as already stated, by virtue of their connection with human wants, has developed from a few primary germs of human thought. This knowledge is our cultural heritage or legacy and is a communal asset. It is social in origin, and should be socially administered and used for the benefit of all. We should neither forget its origin, or corrupt its essence when offered to the community. Our sole safety is to assume the logic of our communal existence upon this planet, as an **ultimate absolute truth;** and this we can approach step by step through the conquest of illusions arising from our incomplete organisation.

You will see from the above, that the difference between the two aspects of Credit is that which lies between substance and shadow. But, whereas in Nature substance must precede shadow, under our economic system the shadow must precede the substance.

ALL BANK CREDIT DEBT.

The late Sir Ed. Holden, an eminent banker, addressing Liverpool business men, said:—"I want you to remember that the business of this world is carried on by loans, and loans create credit." He should have added: "And also create debts and deposits." All trade begins with an order, but to be effective, it must be backed by money, and the only source from whence money can come is the banks, either by loan or overdraft. Facts and figures support this statement, and it must be accepted as conclusive; it has, too, a further meaning, namely, that if bankers ceased issuing credit the business of the world would cease.

Another fact not generally realised is, that all financial credit—a **costless thing consisting of a simple book** entry—**comes into existence as a debt to the** banks; and that this "debt" must be charged into costs of production and recovered through price. Unfortunately, plain as this fact is, its effects are entirely lost sight of. It is vital to remember that whereas the repayment of an overdraft or loan by the borrower extinguishes **his** debt to the banker; it does not extinguish the liability of the **community** to him. The money has to be found again by the community somehow or other.

We now approach the crucial point of the Douglas Theorem, namely, the A + B, the crux really of the whole question. A point that has proved a stumbling block to many, and which even certain economists admit their inability to understand. But with close attention on your part, and simple illustrations on mine, the matter will become pretty clear and free from all ambiguities.

"NATIONAL INCOME" OR "DIVIDEND."

"Let us hear what objections can be made to this."—Milton.

There is, however, an idea relating to incomes which first deserves some comment. Talk of the "national income" or "dividend" is becoming common nowadays. But the users of these terms quite erroneously assume that a tabulation of the money incomes of a community will

give us the sum of the community's purchasing power! Mr. Sutcliffe, lately of the Commonwealth Statistician's Office, in his book, *The National Dividend*, falls into the same error. The word "dividend" means (in economics) a division of a company's profits. For one thing then, as pointing its misuse, how can the word apply to Australia, which has certainly not yet become a "company" in which all breadwinners are treated as shareholders and entitled to a dividend? The word "income" as generally used, and as applied by the term "National Income," means that the "National Income" is a measure of estimate of the total purchasing of the country. But this idea is quite wrong. A very large percentage of that "income" is only one person's income transferred to another and counted twice.

For instance, suppose Mr. Sutcliffe gets £1000 a year. That sum then is counted as income in the "National lncome." Now if he pays his housekeeper, say, £500 a year, behold, the "National Income" now is £1500, or increased by £500! And if Mr. Sutcliffe should for reasons of "economy" decide to marry his housekeeper, and thus have no "housekeeper" to pay, again the magic wand is waved, and the "National Income" is decreased by £500! Mr. Sutcliffe's income of £1000 alone counts then because the late housekeeper has no "income." Such is the method used in calculating the mis-called "National Income," or, as Mr. Sutcliffe calls it, "The National Dividend"! The Douglas dividend is certainly something quite different from that. What Mr. Sutcliffe should tell us, and what we want to know is, the sum total of purchasing power as represented by the sum of wages, salaries, and dividends paid by industry; and which are paid with money derived directly from the banks as loans or overdrafts, and not "transferred" incomes of other people. Then we should know something worth knowing.

Purchasing power is that portion of loans and overdrafts issued for **new production** and distributed as wages, salaries and dividends. Practically all other income is a mere transference of these.

ALL INCOMES ORIGINATE IN INDUSTRY.

People receive incomes in many different forms. It may be as wages, salary, professional fee, business income, shareholder's dividend, interest on bonds or debentures, or by sale of primary products. But all incomes have one common characteristic, namely, they consist of money which, whether we receive it directly or indirectly, is in

the first place paid away by industry. Some incomes may be as interest on Commonwealth Bonds or Municipal Debentures, or as wages or salary as employee of the Government, or as fees for medical treatment, and in such cases appear to have no connection with "industry"; for the fact remains that the money so received by investors, Government employees, or doctors, was in the first instance paid to some person directly employed in industry, and that person transferred it to them under the necessity of Government taxation, or in payment of a financial obligation, or for services rendered. Consequently it can be set down as a fact that the money income of a people and therefore their purchasing power is the sum of money they receive from industry. And for all practical purposes we may truly say that the sum of money distributed by industry in the form of wages, salaries, and dividends is the true measure of the national income. This point should be carefully noted, for it has a direct bearing on the matter in hand, namely, the relation of the actual purchasing power of the community to the costs and prices of goods.

COSTS, PRICES, AND PURCHASING POWER.

"Here is what has come to the surface after so many throes and convulsions."—Whitman.

Douglas says, and the statement has never been disproved:—**"That the wages, salaries, and dividends distributed (as embracing practically all money incomes and therefore the sum of consumers' purchasing power) over any given period of time, do not, and cannot, buy the product of that period; and that the whole of production can only be bought by a draft, and an increasing draft, on the purchasing power distributed in respect of future production, which purchasing power can only come from future bank loans or overdrafts."** The full force of this will appear later.

Two Groups of Payments.

"A serious student of economics should be wary of correcting the results of analysis by recourse to his imagination."—*The New Age*.

Now, in all business undertakings, there are other payments of money made, besides the payments as wages, salaries, and dividends. The payments of industry are really divided into two groups. Let us distinguish them by calling one group A, the other B. Group A includes all payments made to individuals, *i.e.*, wages, salaries, and dividends. Group B includes all payments made to other

organisations for raw material, power, light, bank charges, *etc.*—"overheads." We may express these two groups of payments in another way, by saying that the A group are inside payments, as being payments made to the individuals connected with, or "inside," any particular industry, either as employees, officials, or shareholders; and the B group are outside payments, as being made to other firms or organisations "outside" of and apart from the particular industry that may be under consideration.

With these facts firmly in our mind it will at once be seen that the amount of money being paid to individuals, the group A payments, is the only money consumers receive in respect of that particular production, and represents what is termed the rate of flow of purchasing-power. But since all payments made by industry, including group B, go into price, the sum of costs and prices, or in other words **the rate of flow of prices cannot be less than A + B w**ith the result, since A will not purchase A + B, that a portion of the product must be distributed by means of a fresh creation of money or credit by the banks, and which is not included in the wages, salaries, and dividends that come under group A.

A + B—ILLUSTRATIONS.

"I have used similitudes."—Bunyan.

Let us now express this A + B theorem in the simplest ways possible, and by these illustrations follow it out by logical deductions to the final conclusion.

Illustration 1.—Imagine a self-contained community with legal tender of £20,000 circulating, and that this sum finances both production and consumption. It is paid out periodically to the people as costs in the production of goods and is returned to the manufacturers in prices when the goods are sold. The fact should be noted that in these circumstances the purchasing power of the community, represented by the £20,000 paid away in production, would at any given time equal the total prices of goods on sale and in process of making. **Mark that fact well!**

Suppose now that a business man within this community wishes to build a house, and goes to the banker who keeps the cash accounts of the people, and asks him for an overdraft of £1000 to pay the cost. The banker agrees, makes an entry in his ledger, and the man is now permitted to draw cheques for the amount of his overdraft, and, clearly, for a sum of money more than he pre-

viously had in his account. The banker's liabilities are now increased by £1000. Recall Mr. McKenna's statement about overdrafts.

We will suppose now that the workmen who build the house get their materials for nothing, and are able to keep themselves while at work. Under such conditions we can imagine the house as finished and the builders of it entitled to receive a cheque for £1000. This sum is immediately paid them by the person who was granted the overdraft, and they apportion and lodge it in their respective bank accounts. These transactions increase the sum of bank deposits or money in existence by £1000. A little later the banker asks for the repayment of the overdraft, and the business man not having the money at hand decides to sell the house to the men who built it. These men, we may suppose, agree to buy it, and now draw upon their bank accounts for the sum of £1000 and pass the cheques to him in payment. This done, the business man now holds £1000, and the men have the house built, as theirs. The men would express the fact by saying that they "paid £1000 for it." Though the fact is, actually, that they got the house by working for it. The business man now repays the banker, who, on receiving the cheques, credits the business man's account, and thus wipes off his overdraft, and at the same time debits the accounts of the workmen with the amounts of their cheques, and thereby reduces their deposits by £1000 in all; which means that money to that sum ceases to exist. The banker "destroys" it, as Mr. McKenna says is the case on the repayment of a bank loan. No one now has that money, not even the banker himself, only potentially. That is, he has the power to create another £1000 if he wishes by granting a further loan for that sum. As a result of these transactions a £1000 house exists but no money to equate with it. A £1000 "price" or "cost" has been created, but no equivalent in money or purchasing power to pay that price. Furthermore, the withdrawal of this money from the community reduces the sum in circulation, and consequently leads to less employment and less trade being done. On the other hand, if the overdraft had not been repaid, the banker would have lost only the small percentage of legal tender necessary to meet the liability created when the loan was granted, about 3 per cent., and never more than 10 per cent.; and had the banker claimed the house as repayment of the loan he would have had it on the same terms as if the bank concerned were the Commonwealth Bank, in the first instance

it would suffer no loss, and in the second instance it would get the house for nothing, for it can print and issue its own notes to meet its liabilities.

MONEY "CREATED" AND "DESTROYED."

Now mark this fact! Previous to the granting of that £1000 overdraft, that money had no record in the bank's books either as an asset or a liability; when recorded it became a liability, and **after repayment it was neither a liability nor an asset.** It meant then the **creation** ·of something and also the **destruction** of something.

Suppose now, taking up our illustration again, the men decide to use the house as a factory for making clothes for sale. The cost of the clothes will consist of at least three items: wages, raw materials, and a charge on account of the wear and tear of the factory, technically called depreciation. Let us consider in this instance that they get their raw material for nothing, and that the depreciation charge—which we will put down at 10 per cent.—is to build up a reserve fund, so that when the house is no longer habitable, the men will have £1000 to rebuild it.

NEITHER PROFIT, RENT, NOR INTEREST INVOLVED.

"How extremely stupid of us not to have seen that before."—Huxley.

Now in this instance, assuming production to take place, the fact should be noted that **neither profit, nor rent, nor interest, nor the land question enters into the matter.** And yet the simple vital fact remains, **that the wages paid during any period of production cannot possibly buy the clothes produced, because the price of them includes a 10 per cent. depreciation charge which is not distributed in money to consumers, and which must make prices 10 per cent. greater than purchasing power.** This means, for example, that for every £10 paid in Wages, which, let us say, results in a suit being made, another £1 as the "depreciation" charge must be added, making the price of the suit £11; although the consumers quite clearly would have only the £10 distributed as wages and could not pay £11.
The case thus stated shows conclusively that the root cause is neither profit, rent, interest, nor land, and that even were these factors eliminated, the problem of overhead charges would still remain unsolved. The 10 per cent. which must be added to cost and recovered through price, represents overhead charges in their simplest form.

In many modern systems of production these charges are between 200 and 300 per cent. of the direct cost of the· article; including selling costs, they go up as high as 2000 per cent. And, to repeat, these charges are not profit, rent, or interest.

ILLUSTRATION EXTENDED.

Suppose now, carrying this illustration further, the business man gets another overdraft and repeats the identical process. Once again the men would have got a house by working for it, and once again the banker would have created and destroyed the £1000; and again an overhead charge of 10 per cent. would have to be added to the price of clothes, though there could not possibly be the equivalent in money or purchasing power in existence. There would now be two factories in existence, having a financial cost of £2000, and this cost would have to be recovered in the price of goods. And clearly, consumers could not pay this cost, for upon repayment of the bank loans, £2000 in money was destroyed, and the sum of currency would now be exactly the same as before the houses were built. The only deduction is, then, since the consumers have not the money, that the goods must remain unsold; or (giving it a broader application, and we imagine several industries operating under these conditions), should one industry sell all its goods, then some other industry will have a still greater quantity of its goods on hand unsold and unsaleable.

This illustration shows precisely what is happening in industry to-day. If you can imagine how these overhead charges are piled up in every industry, you will then realise the fact that wages, salaries, and dividends, practically the only purchasing power, cannot buy the product. Remember, also, that this process is going on continually. That is, the bankers are constantly issuing and recalling financial credits, and goods are produced, and the money that should be in the hands of consumers to buy them is recalled, cancelled, and destroyed before the goods are purchased and consumed. It will also be apparent how consuming less, saving and investing money by still further lessening the amount of money spent, must result in intensifying the evil, reducing production, and increasing unemployment.

A + B FURTHER ILLUSTRATED.

Illustration 2.—Let us now take a case more in keeping with everyday practice. An enterprising manufac-

turer sees a good opening to extend his business, and plans to enlarge his factory. He goes to his banker, explains matters, and gets an overdraft for £10,000 to carry out his plans. He now has a loan account in addition to his current account to draw upon. The building being completed and equipped with machinery, his loan account now stands at nil, and the community has the £10,000 which sum we shall suppose to have been saved intact. The banker begins to hint at repayment of the overdraft and the business man, not having the money at hand but anxious to comply, decides to float a company and sell shares for £10,000. He does this and recovers the £10,000 from the community, and then uses the money to repay the banker. The banker on receipt of the £10,000 wipes off the overdraft, files away the cheques, and so, so much money goes out of existence, or is destroyed.

The factory manager is now authorised to get an overdraft for, say, £1000 to cover working expenses for the first year. By the end of the year he has paid this, money away for raw material, wages, and salaries, and has certain goods in hand to dispose of. The price he must charge for these goods must be at least the working expenses, *i.e.*, £1000, plus a depreciation charge for factory and plant, say, 10 per cent.—£1000. If he does not recover this 10 per cent. in price, at the end of ten years, say, the shareholders' scrip would be worthless, representing only a worn-out factory and plant. Therefore, the minimum cost of the product will be: Wages, &c., £1000; Depreciation Charge, £1000; a total of £2000. **But the public can have only the £1000 received as wages, &c., as purchasing power to buy the goods.** Again we come to the conclusion that, under these circumstances, a factory could sell only half the goods it manufactures. Here again also it will be observed that neither profit, interest, rent nor land enter as factors into the problem.

A + B—SERIES OR CHAIN PRODUCTION.

"I do not give a pattern to imitate, but an example to deter."—Junius.

Illustration 3.—Let us now take a somewhat complex example of what is called chain or series production. A farmer sells a fat beast in the auction yard to the· meat works. To the farmer the bullock has no "cost," much less its hide; he must take what he can get for it, and what he does get we might call his "wages." But

to the meat works the hide becomes a cost, an overhead charge, and we may put it down at, say, £1. The hide is sold to the tanner for that sum, and so the meat works recovers its cost. We may set the illustration out thus:—

The meat works sells the hide to the tanner for	£1 0 0
The tanner's factory costs are, say 10/-, profit 3/-, and he sells the hide to the currier for	£1 13 0
The currier's factory costs are, say, 7/6, profit 4/-, which he recovers by selling it to the leather merchant for	£2 4 6
The leather merchant's costs are, say, 10/-, profit 5/6, which in turn he recovers by selling the hide to a trunk-maker for	£3 0 0
The trunk-maker's costs are, say, £6 of which £4 are wages and salaries, and to which he adds £1 as profit, and now we have a leather trunk costing	£10 0 0

Now, without adding selling charges and profits of the retailer, it must be obvious that a charge of £10 on the world's purchasing power has been created; and it is just as clear that £5 is the only sum of money consumers can have as purchasing power to meet that charge in respect of that particular product. And this assumes, of course, that the "profit" was paid as wages of management. If not, it is only £4.

ALWAYS NOW IN EVERY INDUSTRY.

"An everlasting now reigns."—Emerson.

In the course of the manufacture of the materials of which the trunk was made, each process bear in mind, was financed by overdrafts, and in each case when repaid would mean the cancellation of that much money. **At no period of the different processes then could the purchasing power distributed to individuals buy the product.** And if we call **any period "**now," then from the point of view of the relation of prices to purchasing power, **it is always "NOW"** in every factory and trading firm, **and therefore consumers have never enough money to purchase the goods produced.** As to the payments made to individuals during the processes, this money would naturally be spent on the goods then on the market—a time,

weeks or months, perhaps, before the trunk was made—and so in a more or less devious way, through the retailers, wholesalers, and manufacturers of whatever goods it purchased, get back to the bank and—be destroyed.

The deduction from this last instance is then: Where any payments in money appear as costs twice or more in a series of productive processes, the ultimate price of the goods, is increased by that amount multiplied by the number of times it appears, without any equivalent increase of purchasing power going to consumers. This is, the fatal flaw in the financial and accountancy system, and while that system operates in that way the result cannot be otherwise. This accounting of a cost twice or more in the price of goods, while the people get the money only once, is the root cause of our economic disease. It makes it impossible, as we have seen, for consumers to have sufficient money to buy the goods produced: and if we in Australia cannot buy our own products, it is obvious that we cannot buy the products of other countries without more loans and overdrafts and the inevitable piling up of debts.

THE CORE OF THE FINANCIAL PROBLEM.

Purchasing Power Must Equal Production Costs.

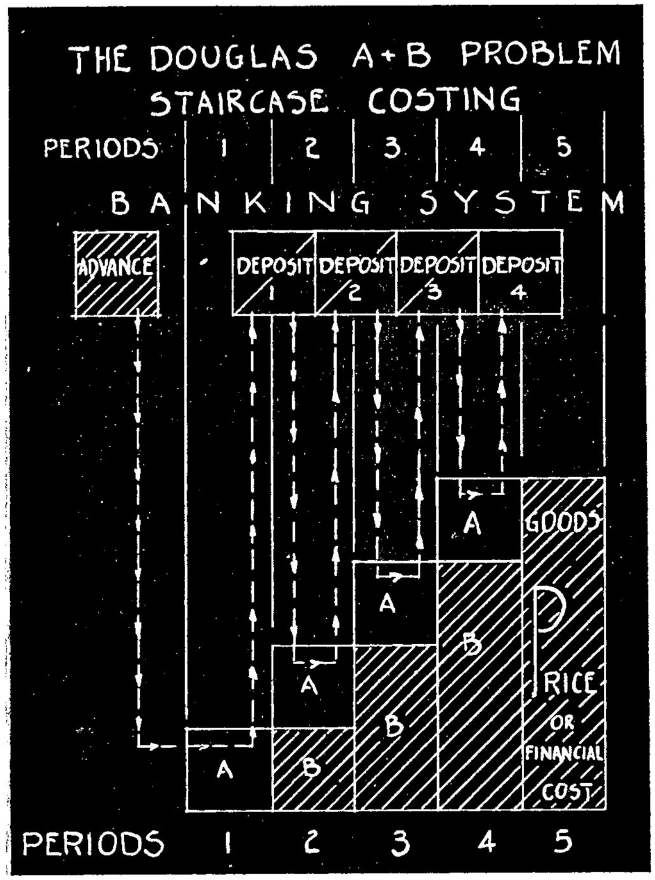
Illustration 4.—Please bear in mind these two facts:—

(a) in Nature a Cost is that which **was, but is** not. That which is, is not a Cost.

(b) It is an axiom in the double entry system of accountancy that all costs must enter into and be recovered, through Price. That is to say, that the wages of the bushman who fell the tree that was used to make the pulp that went to make the paper I am writing on, enters into the price of the paper, and I have to pay my fraction of it. That, I hope, makes the point dear.

Consider the diagram on page 40. The lower part of the diagram (the staircase), represents the progression of costing through four equal periods of time. The upper part represents the financing of the four operations.

Imagine the Australian people about to produce consumable goods of all sorts from beginning to end during the four periods. I will refer to them as the "community." It will include everybody, both employers and employed. Refer again to the diagram, and there you will see four vertical columns representing the four equal periods. In the first period there is the square A1. That represents wages, salaries, and dividends, which have been paid out for work done and services rendered. That, bear in mind, is the only item of expenditure in the first period, during which the workers are engaged in growing food, and also in collecting and assembling natural materials—coal, timber, metals, clay, limestone, sand, *etc., etc.*,—for use in the second period. All the money they draw is for personal service, and is personal income, which they are free



to spend wholly on the foodstuffs which they need, and of which a sufficient quantity (we will assume), has been provided for within the total volume of production. We now come to the second period. Here you see a hatched square, B2. This square represents the total "cost" of all the natural materials gathered together by the people in

the first period. This square, B2, must be considered as square A1 moved across from the first period, and expresses the fact that the products collected, or grown, or made, and remaining over from the first period have now become the raw material for the operation in the second. The "cost" of all this raw material, you will bear in mind, is, of course, exactly equal to the total of the incomes received by the people in the first period. Therefore, the, square B2 is drawn exactly equal in size to the square A1.

The people now get to work in Period 2 on the raw material and receive exactly the same income as before represented by the square A2. At the end of the second period they pass on to the third period a quantity of unconsumed and semi-manufactured articles bearing a "cost" value represented by the rectangle B3. This rectangle is, you will notice, now twice the size of B2, but it has no reference to the size or quantity of the product, but only to its "cost." Please remember, **I am costing up in money all the time.** The cost, B3, then, is easily seen to be the total of the two lots of wages, salaries, and dividends—*i.e.*, personal incomes—shown by squares A1 and A2. Thenceforward, to the end of Period 4 (when production is complete and is then stopped for stocktaking purposes), the same system, is pursued, so that at the opening of the fifth period we see on the diagram a shaded rectangle representing the total "cost" of the finished goods that the community has produced **over and above those they have consumed.** Please note, we are dealing in our diagram with the "costing" of **unconsumed** materials carried forward from period to period, process to process, until they emerge as finished goods ready for the market. At the opening of Period 5 we have the shaded rectangle marked "Price or Financial Cost," for no addition has to be made for profit, since the profits are already included in the squares A1, 2, 3, and 4. Why I use the word "Price" is because I mean it to be the **minimum price** at which the goods could be sold without "loss" under the laws of the prevailing system of accountancy, otherwise price is what a thing will fetch.

The "Price" of the goods which the community has produced is represented by the rectangle, which is just four times as large as each A square; in fact, it is easily seen to be the exact equivalent of A1 plus A2 plus A3 plus A4. This fact is very interesting, for it illustrates the undoubted truth that the present "Price" of any product, when ultimately analysed, is constituted exclusively of past wages, salaries and dividends. Now we have to

examine the money question. So far, we have been talking about incomes, and have been adding them up and passing them on as "costs," without enquiring where the money came from in the first place, and how it was subsequently used. To illustrate: In Period 1 a certain number of money tokens or tickets were required to pay the community for their service and enable them to buy what goods they needed. It doesn't matter a bit **how much** money; it matters so little that all we need do is to draw a square, equal in size to square A1, and mark it "Advance," as you see on the diagram. This "Advance" represents a certain number of money tickets or tokens—**quite costless other than the administrative and printing charges.** All that is necessary is that the community agree to distribute them as wages, salaries, and dividends, and that they be accepted in each period as the means whereby goods and services can be distributed among the community in proportions corresponding to the number of tickets that they individually hold. It should be noted that irregularities in the sharing out of the tickets are not relevant to the main argument. We are concerned with the **lump sum of income** that the community receives. This "Advance" may be made from "saved" money tickets, *i.e.*, saved from incomes previously received, or have been newly created—it matters not which for the present. What matters is what happens to them. Look then, the "Advance" comes down from the banking system to the Square A1, where it becomes the **Income** A1; after which it becomes the personal expenditure within Period 1. Next, it travels up, as indicated by the arrowed line, and becomes the "Deposit" of A1 now back in the banking system.

It will be seen that this "Advance" has now performed a round tour through A1 to Deposit 1, and during its journey it has enabled the community to produce something which it has consumed, **plus a lot more which it has not, but has passed on to Period 2 as material for the next stage or process in production.** Having thus functioned, the "Advance" now returns to its birthplace, having earned the right to the name of "Deposit." (Such being the precise methods by which "Deposits" are created or made). At the beginning of Period 2 our Deposit is wanted again for the purpose of repeating its service of Period 1, which it does and again returns to the bank as shown as Deposit 2 in the diagram. Deposit 1 having now disappeared, it is crossed out. From now on, by the same process, this very same block of money tickets reappears as Deposit 3, and then as Deposit 4. **It has been the Income of the community four times, and has functioned both for production and consumption.** Seeing now that production is stopped for stocktaking—what shall we do with it? Why not transfer this Deposit 4, now standing to the credit of the community to the loan account (the "Advance" square), and cancel the original Advance, which, of course, has been standing to the debit of the community all the while. We'll suppose they do so. Then the square Deposit 4 and "Advance" wipe each other out, and the community **now** is free of debt; **owes no** money tickets. But then, **it has no money.** It suffers from Financial Poverty! But stay! There are all those goods represented by the rectangle—of a "cost" (money "value") equal to the income of all four periods added together, and **all paid for!** It is a rich community. It has much Real Wealth at its disposal. But it cannot enjoy any of its "riches" unless it can get a new supply of money tickets. It has no means, no technique for distributing the goods. So it must contract a new loan before it can touch a fraction of the goods it has brought to completion. On the other hand, suppose it allows the original debt to stand, and again uses Deposit 4, even then it will only be able to buy one-quarter of the goods on hand, and to produce further goods while so much remains unsaleable would be unwise.

Two courses remain: (1) To reduce prices 75 per cent.; then Deposit 4 would buy all the goods. (2) A free issue of money tickets sufficient to buy all the goods. Either of these courses would solve the problem and give free access to all the community could or cared to produce. Otherwise, trade stagnates, is depressed, and unemployment follows, and the vicious circle we are all so familiar with goes on.

If, as may be said, this creation of new money tickets is "unsafe" and will cause "inflation," then I want to know upon what grounds such an assertion can be sustained, or, indeed, any grounds that may be put forward objecting to such a course. To sum up: (1) If the community repays the "Advance" to the bank at the end of the fourth period, it loses all its purchasing power, and cannot touch a jot of its own products. (2) If it retains the "Advance" as a debt, then it can only purchase one quarter of its goods. (3) According to the diagram, it seems quite clear **that "Price" or "Financial Cost" cannot be the True or Just Price of the finished goods;** and

it will require some ingenuity to show why it is; and I should like someone to explain why and justify it by sound reasoning. Look again at the diagram, and you will see that A costs exactly equals the rectangle "Price"; therefore purchasing power and price being two ends of the same thing, should meet, and they who cannot make them meet have nothing to contribute to the solution of the economic problem.

I may say that I do not present these as final conclusions, but certainly claim that the onus of proving the contrary lies upon the objectors and not upholders of Douglas' famous A + B theorem. Let them, therefore, set to work and show by this diagram, or a modification of it, how Australian consumers can acquire their total produce. I would point out that during Periods 2, 3, and 4, capital production had progressed, hence the capacity to produce and deliver goods—*i.e.*, the Real Credit of the community—had also increased, therefore **Financial Credit can be increased accordingly.** Look again at the diagram and realise how accurately it fits the facts, how truly it corresponds to reality. Let me leave this fact with you: In nature "cost" represents **something which has been, and is not. That which is, is not a "cost."**

ABUNDANCE FOR ALL, BUT—

Consider a well spread banquet. The table is loaded with all sorts of good things, an abundance for all, but owing to a wrong method of accounting and a shortage of printed tickets, half the guests are unable to enter and partake of the good things provided, and so they are wasted or deliberately destroyed. Is it not clear to readers that there is no possible way out of that muddle other than printing a sufficiency of tickets?

That is precisely the state of things in the economic world to-day. It is not exaggerated. There is a surplus of 7,000,000 cases of peaches unmarketable in U.S.A., and 4,500,000 bags of coffee in Brazil, and millions upon millions of bushels of wheat, all of which will probably be destroyed.

The objection is sometimes made that the mere circulation of commodity money—notes and coin—creates purchasing power over and over again. **This is not true.** When the customer pays the retailer 20/-, the retailer must pay 18/-, say, to the wholesaler who must pay the

manufacturer, and so on back to its source. And when the money is again re-issued by the banks it bears an equivalent cost and must again be recovered through price.

PERCENTAGE OF PURCHASING POWER.

"Few men who think clearly will be able to think differently from Douglas."

A friend of mine has supplied me with the A and B costs of his factory, as shown by the profit and loss account. The mechanical equipment, I may say, was by no means up-to-date. The payments to individuals—wages, salaries, dividends, and directors' fees—would only buy just under 50 per cent. of the product of this factory. The Australian factories for the year 1927-1928 produced goods to the value of £416,000,000, and against this sum only £130,000,000 was distributed as purchasing power in the form of wages, salaries, and dividends—only 31 per cent. of prices of the output; while Lever Bros. published a diagram showing that the purchasing power distributed by that firm would buy only 10.6 per cent. of their goods.

The vital point laid down by Douglas may now be seen. In the three cases cited, the A payments can buy 50 per cent., 31 per cent., and 10.6 per cent. respectively of the products. Now, says Douglas, the time is inevitably coming when even the 10 per cent. will vanish, and the whole of our purchasing power will have to come out of new loans and overdrafts. The rapid growth of the Hire-Purchase System—spending income before it has been received, proves this. If the consumers have to pay depreciation and all overhead charges, they should first be given the money to do so, and this is not done. If consumers are to be **debited with depreciation, then** why are they not **credited with appreciation**? The picture would then present a totally different appearance.

REAL COST OF PRODUCTION.

"I accept reality and dare not question it."—Whitman.

Before leaving this question of cost, which is of the utmost importance, it is well to ask: **What is the real cost, the natural cost of production?** The only correct answer is: **Consumption is the cost of Production**. The question of real cost is of vital importance. Let us recall to our minds the houses built as a result of the overdrafts, and, so far as we can, banish all obsolete, worn out, economic notions, face REALITY, and find an

answer to this question: What part or service other than the mechanism of distribution of goods and services from producer to consumer, did those cheques—money tickets—play? Actually, that money was the least important factor in the work. As original documents of the transaction for the purpose of accountancy they served, and should have served as long as the house stood; but apart from this use as vouchers, and as a means of enabling the transfer of goods, this money or tickets had no other use whatever.

Even the question of interest, had it entered into the transaction, sinks into utter insignificance beside the FACT that **the house was paid for as soon as it was finished**—*i.e.*, in terms of reality and according to a just and natural system of economics. The accounts were settled, balanced, leaving no debt, no overhead charge unpaid, any more than the roses I grow in my garden.

THE BALANCE STRUCK.

What was the real, the natural cost of those houses? That quantity of materials consumed, depreciated, or destroyed, together with so much man-energy, and that which was necessary to replace it. That is precisely the sum total of costs. That being so, then why not strike the balance in this way:—

Debit—Consumption	Credit—Production
To materials consumed, depreciated or destroyed.	By two houses built.

The debit side being depreciation of the community's assets, and the credit side being appreciation of those goods; and the gain is to be seen at once. As to the money cost, that, as we have seen, was merely figures, bookkeeping; but whatever the money cost may be, its equivalent in buying power—money tickets—must be in the hands of the consumers, serving to get the goods distributed, **otherwise the goods cannot be sold.**

CONSUMPTION, THE COST OF PRODUCTION.

"The sense was dark, 'twas therefore fit with simile to illustrate it."—Cowper.

What was the cost of the granite rock but the consumption of primeval mud? What other than the consumption of primeval forests was the cost of the coal beds? And was not the cost of those forests the con-

sumption of all those elements that go to feed and nourish vegetable life? Cite where you will in all Nature's wide domains, and the same conclusion will be forced upon you, namely, that Consumption is the cost of Production; and this law operates immutably, irrevocably, and applies to our economic life. **Moreover, appreciation always greatly exceeds depreciation.** All nature and man proclaims that fact right down through the ages.

Consumption—Production. Production—Consumption. It is the systole and diastole of all life, and equally so in economic life. Is it not so? Then why not base our economic and accountancy systems on a balanced immutable Law of Nature, and banish the man-made rules that result in such tragic suffering? A little reflection surely must convince anyone that with regard to "Cost" Nature provides the Law, and by following her example we cannot go wrong. But we have no law in Nature as regards "Price." "The gods," says Emerson, "sell everything at a fair price." Yet the gods have never given us any formula of a "fair price," much less the **Just Price.** For that, the world is deeply indebted to Major C. H. Douglas, whose famous Price Regulating Formula supplies this long-felt want. It is the work of a genius, and when put into operation will prove the greatest benefaction to humanity. It's the greatest discovery of the age!

A MONEY ECONOMY.

We live in a money economy. Some mechanism or means we must have for the purpose of distributing goods, and money as that means at present serves the purpose. "Price" is an essential in buying and selling, and to ascertain The Just Price and sell goods at that price, is one of the aims of Social Credit. It will be attained by the Douglas Price Regulation Formula.

The first step to be taken is: **The Control of Financial Credit;** the second—equally important—is to put the **Douglas Price Formula into operation.** Both must operate together, otherwise—but an illustration is best.

"FEDERATION OF AUSTRALIAN INDUSTRIES."

"You are as remote when you are nearest as when you are farthest."—Emerson.

Illustration 5.—Suppose our whole productive system to be as one firm known as the "Federation of Australian Industries." The Government having assumed control of credit policy, instructs the banks to issue free credit of

£600 millions to this Federation of Industries. This sum we will take to be the sum necessary for the full working of industry. The bank accordingly grants the financial credit, and thus the first step—the effective control of credit policy by a Government—is effected. Our firm is, now supplied with credit and allocates the money to the various departments, which are in themselves really separate industries, to carry on the year's work.

Now when one department of industry within this federation buys goods from another department of industry, it cannot be held to have **spent** that money, in the sense that the money goes **outside** or away from the Federation. Because plainly, the purchase of something by one department from another, means only that the sum of money involved has merely been transferred, and is now held by a different department, but would still remain within the Federation. For instance, suppose the Tramway Department bought £10,000 worth of steel rails from the Steel Works Department. This sum then, while appearing as "Expenditure" in the Tramway's account, and incurring a "cost," must also appear as a

"Receipt" in the Steel Works' account, and wipe off a "cost" previously incurred by that department. And the sum of money, it is important to note, held by the firm embracing all departments, must be the same and could not be altered in any way by such transactions. But this Federation, besides these inter-department money transactions, would make other money payments of a vitally different nature. Each department would pay away money as wages, salaries, and dividends to its employees and shareholders; and this money as quite distinct from the money passing between departments, would **go to individuals.** The money then would go **outside** the firm. And since the sum so distributed would be the **only** money going to individuals—the consumers—it would be their sole purchasing power; and therefore this is the only sum of money on being spent by consumers, which could possibly reduce the stock of goods produced by the firm or Federation of Australian Industries.

Now let us suppose that the sum so paid away as, wages, salaries, and dividends, be £150 millions, and £450 millions is the sum of inter-department payments. And further let us consider that at the end of a year the firm has recovered the £150 millions from consumers by the sale of goods, and to balance up the year's operations, repays the £600 millions to the banks, upon which the credit is cancelled and the money destroyed. Now in

reviewing the operations of this firm for the year what would we find? (1) That goods having a financial cost of £600 millions had been produced. (2) That goods having a financial cost of £150 millions had been sold and consumed. (3) That there remain goods to the financial value of £450 millions on hand, unsold and unsaleable. The position could not be otherwise, for consumers at no time received more than £150 millions and could buy no more in goods than that sum, and since the whole of this money together with the £450 millions has now been repaid to the banks and destroyed, there is no money in existence to buy the balance of production. (Please note: dividends are only paid after the goods are sold).

ONLY ONE PART OF REMEDY.

Now this illustration so far shows the effect of the application of only one part of the remedy. Though a Government-controlled credit policy provided plenty of interest free credit to enable industry to produce goods, it is quite clear that this ample supply of credit for production did not enable the consumption of all the goods produced. To do this the Price Regulation Factor as the other part of the remedy must be introduced. Now in this instance consumption was only one-fourth of total production; prices, then, should be one-fourth of total financial cost. Which means that had the Price Factor been operating, the £150 millions in the hands of consumers would have purchased four times as much, or, in other words, that sum would have been an effective money demand for the total production of £600 millions as it became consumable.

BUSINESS AND CONSUMER CREDITS.

We may regard this another way. Consider the credit issued by the banks to the Federation had been classified in the following manner. The payments passing between departments being considered as "business credits," and creating business "costs," and the payments made to individuals—consumers—being taken as "consumer credits" and creating consumer "costs." Now it will be apparent that if the only costs charged against consumers had been "consumer costs," then prices would have been only one-fourth of total costs, which includes "business" **and** "consumer" costs; and consumer incomes or purchasing power would have equalled prices.

If bank ledgers were kept in such a way as to repre-

sent the physical facts of consumption and production, there would be a sort of national suspense account or National Credit Account, in which there would appear a **credit** in favour of the community equal to the cost of all existing capital or industrial assets. For it is on account of these "assets" that "business costs" or charges are made by the producers; and if such an account existed and were credited as should be done, the community would always have a fund to draw upon to meet these costs in price. But under present financial and accounting methods, not only is this not done, but the banks by prematurely recalling loans and overdrafts and destroying the money equivalent to these costs, destroy the only means by which consumers can discharge their liability to the producers.

COSTS EXCEEDING PURCHASING POWER.

While the present practice of accounting all financial costs plus profit to consumers, operates, it is obvious that the cost figures of every article produced, and the financial values of every factory, must exceed with varying percentages in each case, the sum of money distributed to consumers and therefore their purchasing power. And, of course, the more up to date the factory equipment, the less will be the purchasing power distributed and the greater the discrepancy.

If the present system of costing automatically adjusts itself—as is sometimes contended—the fact should be capable of being proved mathematically. Douglas so proves his contrary thesis, and the would-be critics, to prove theirs, should produce similar facts and formulae.

ROOTS OF THE DISEASE.

When the accuracy of the Douglas analysis has been grasped, recognition of the effects logically follows. Under the present system of accounting all costs into price, goods cannot be sold at less than financial cost, as they should be, without causing bankruptcies. And inevitably, since all financial costs are not distributed as purchasing power, consumer-buying cannot keep pace with production; hence, progress towards greater production is retarded and unemployment ensues. Further, seeing that consumers are charged with the costs of **all** production while getting only the **consumable portion,** they have to pay not only for the goods they get, **but for goods they do not get, namely,** factories, plant, depreciation, and obso-

lescence. As already stated, if consumers must be debited with depreciation, then why not credit them with appreciation? This done, our troubles would be over. They would vanish.

The rapidly increasing factor of improved processes, new inventions and labour-saving (wage and salary saving) machinery, is causing a continual reduction in employment, as we have seen, and consequently a reduction in the distribution of goods to the consumers. Further, being under the necessity of saving, consumers cannot spend as much money as they receive. In short, **the lack of consumer income is the root cause of the economic disease.**

THE REMEDY.

"Can we imagine the people of a free nation oppressed and tyrannised over, should be left remedyless?"—Milton.

The remedy proposed by Major Douglas arises quite naturally from a recognition of the fault in the financial and accountancy systems. **Purchasing power in the hands of consumers must equal the collective prices of consumable goods on sale regardless of book costs.** It will be evident at once that the problem is a technical one, and the technique of its application is a matter for the experts.

The simple and fundamental point at issue, however, is really this: Whether, when the banker creates and issues a costless credit—money—he should be repaid, which assumes it belongs to him, or whether he should not be repaid, which assumes it belongs to the community. **That is the real point.** And the answer given will determine whether our economic problems will be satisfactorily solved, or whether they will become intensified, as is inevitable under the present financial and accounting systems.

It is not intended that this brief exposition should include a discussion of the technique of Major Douglas's Theorem, but a simple illustration will give some idea how it would work out in practice for consumers, and that really is all the average person wants to know. The experts when called in, will soon settle the details, once the principle is accepted. The building of the North Shore Bridge, Sydney, having been decided, the people had no interest in the technical details as to how it could or would be done; that was a matter for the experts and the experts settled it. It will be so with the Douglas Proposals.

HOW SOCIAL CREDIT WORKS OUT.

"Behold, I show you a mystery."—St. Paul.
"An illustration is very necessary, to enforce and enlarge our tale."—Puttenham.

Let us now imagine, not a "Federation of Australian Industries," but an "Australian Producers and Consumers' Co.," formed for the purpose of supplying its shareholders with goods and services of all kinds required. All consumers (*i.e.*, everyone) are shareholders, not only because they are consumers, but in virtue of citizenship and as beneficial owners or joint tenants of our cultural heritage. The function of the consumer is to consume.

The Producers, *i.e.*, all engaged in productive and cultural activities, being accredited to carry out the Social Credit policy by, and for, a democracy of consumers.

Each manufacturer or distributor in addition to being an ordinary shareholder, is entitled to an agreed profit on his turnover.

The function of the producers is to produce and deliver goods and services as when and where required, without let or hindrance up to the point of abundance for all.

The control of financial credit, *i.e.*, the ability to deliver valid money as and when required, is vested in the Government and administered by the Commonwealth Bank (the trading banks will do very well), which has been authorised to issue overdrafts up to the limit of Real Credit, *i.e.*, the ascertained potential capacity to produce and deliver goods of all kinds. (The Real Credit of a community it should be noted, is always increasing, indefinitely expanding, while consumption is limited).

Now, let us suppose that ten thousand units represent the potential capacity of the Company, and the credit-issuing department is instructed to issue credits equivalent to the money cost of the ten thousand units. The accounts of the Company then would open as showing the Producers in debit for the credit allowed them for the money cost of their various products, or, we may say their potential output or productive capacity. Which "cost" or "capacity" we have set down at ten thousand units. While in the Consumers' Account, there would appear a corresponding "credit" of ten thousand units, as the consumers' fund or purchasing power. For, bear in mind, the aim of the Company is to enable the consumption of all goods produced. And to do this it is essential, quite obviously, that the consumers' purchasing power shall at all

times equal the money cost of the goods produced. So that it will be the practice of this Company to write up or "credit" the Consumers' Account with the money value of all products made and other appreciations in production; and to write down or "debit" the Consumers' Account only as products are consumed or depreciated. The actual money value of the units need not concern us. They are only figures—book-entries—and can be any denomination we like.

TWO URGENT PROBLEMS.

Two urgent practical problems wait to be attacked:
(1) To raise every individual above the poverty line.
(2) To raise every business above the insolvency line.

The Company sets about its task, and on the surface things proceed much as usual under this scheme, except that industry, being assured of ample credit to carry on, gets busier and like Texas Bill, is "doing its damndest."

THE RESULT.

"You may say: 'This is too good to be true.' But I ask: 'Is not the present state of things too bad to be true?'"
"Nothing surprises so much as common sense."—Emerson.

In three or six months the accountants are called in to audit the Company's books and prepare a balance sheet. This is done, and the balance sheet shows that while the Producers have drawn up to the limit of credit allowed them, and produced goods to that cost, the Consumers' Account has been drawn upon for **only half the amount at credit.** In an ordinary company, this may be said to represent a possible dividend of 50 per cent.; but as the purpose of our Company is to produce and deliver goods and services, not money, the question arises how to act with regard to the credit balance. The accountants, decide to scale down prices 50 per cent., and this is done.

Consequently, consumers are agreeably surprised to find that all prices are reduced by one-half, or, one may say, each 1/- held becomes 2/-, and each 10/- a pound. Twice as much can now be bought for the same money. A £1000 house for £500; a £100 worth of furniture for £50, a suit of clothes formerly costing £10, for £5; a £1 pair of boots for 10/-, and a 1/- loaf of bread for 6d. Thus all classes would benefit. And the most im-

portant thing about it is, that the workers would still receive good wages, the manufacturers and the merchants a fair profit, and no one would be penalised.

PRODUCTIVITY WOULD INCREASE.

It is no mere assumption but a fact, too, to say that that oppressive burden—Money Power—once having been cast off by those shareholders—the consumers—appreciation in productive capacity would rapidly follow. New inventions, short cuts, new processes, and labour-saving machinery would be welcomed, and a much higher standard of living thereby gained. Besides this there would be greater leisure and economic security assured for all.

Has not that illustration (by no means overdrawn or complete), in all its simplicity, the alluring persuasion of sweet reasonableness? It is only when the imagination plays around the isolated facts, and by bringing much into harmonious relation, by reducing multiplicity to unity, that the creative impulse can get to work. The thing done, the wonder accomplished, and the capacity for apprehension becomes universal.

THE ESSENTIAL THINGS.

After all, what are the essentials that wrought that much-to-be-desired change?

(1) **That financial credit was controlled and administered for the Company, *i.e.*, the community.**

(2) **That the Real Credit (the productive capacity), was accounted to the shareholders (the community), as their communal asset.**

(3) **That Consumption is the cost of Production, was the accepted and applied principle of accountancy.**

(4) **That the Douglas Price Regulating Factor operated.**

And thus prices became lower, not higher. Hence all evils due to inflation of prices were as extinct as the Dodo. "Money" was recognised and used solely as the mechanism of distribution—a docile, helpful servant, not a tyrannical despotic Master.

Such in brief and in part, is an example of how the Douglas Proposals would work out. But, to appreciate the full implications of this brief portrayal, the proposals must be thoroughly scrutinised. Much more will then be seen than if merely scanned.

MAKING A START.

"We have followed precedents, now we must make precedents for ages to come."—O. W. Holmes.

It is the test of the wisdom of a policy, that by means of it, advancement can proceed from stage to stage; and although there are a number of ways open for the adoption of Social Credit, the following example suggests how it may be started.

Suppose one or more of the large departmental stores, such as Myers (Melbourne), Anthony Horderns (Sydney), or Beirnes (Brisbane), agreed to accept a fixed profit on their turnover. The Treasury could say: "Sell your goods at 50 per cent. less than the usual price, and we will guarantee you the loss."

The result would be that customers would get twice as much for their money—just what they want, and just at the time they want it. The firm in compliance with the agreement, would send in, monthly, a return of their sales, and the Treasury would credit their bank account with, or reduce their overdrafts by, an equal sum. This being done by a simple book entry.

Imagine the trade these stores would do. Within a week or two every store would fall into line. This plan is quite practical. If Austria could, and did, sell bread at one-seventh its cost, losing nothing by so doing, surely Australia can do the same in all things. (See Col. Repington's *After the War*.)

The switch over would be as smooth as the change from darkness to dawn. No jolt, nor jar, no upheaval in the works; no bloody revolution, no civil war. Neither employers nor workmen would feel any shock other than a welcome one. There would indeed be one change. A score or so of Financiers would be deprived of their oppressive power. The big Bank ring—and many are the manufacturers and merchants who dread it—would no longer control credit. A change that would transfer the power, now controlling the destiny of millions of human beings.

The Douglas Proposals once started, there would be no governmental interference. Industry, would be stimulated. The home market would be established. Employment would increase. Want, replaced by the satisfaction of that want. The necessary export trade facilitated. The present vexatious, expensive, and therefore wasteful method of collecting revenue, would be abolished.

All present rights would be protected. Harmony would be established between Capital and Labour. It would free not only industry, but Governments, from submission to that Supreme Power—Finance. And, finally, it sets free funds for all cultural and spiritual objectives, and provides leisure for their pursuit.

THEORY BASED ON FACTS.

If ever there were a theory based solely on facts, closely reasoned, and bent to practical and humane purposes, IT IS THE DOUGLAS THEORY. A science of regular proportions, standing upon eternal foundations. The future may add to, revise or reconstruct, to-day it suffices; and its coming and with it the lifting of the nightmare of poverty, and want, and fear, is as inevitable as the dawn. Otherwise, Abandon Hope! And, naturally, one thing is certain, that the author of this Theory can be neither a crank nor fanatic. For the former lacks mental poise, and the latter is given to wild and extravagant notions. Such, obviously, would be fatal to a first rate engineer efficient in all its branches, or a good mathematician, and Douglas is both.

Many are the avenues that have been explored in a vain and futile search for a solution of our troubles, but all have been proved blind alleys, no thoroughfares. But the Douglas Avenue gives us not only a thoroughfare, but a splendid vision.

CONCLUSION.

"I trust I shall have spoken persuasion to abundance of sensible and ingenuous men."—Milton.
"And the conclusion is . . . . in practice let us put it presently."—Shakespeare.

Let me try and bring home to you by an analogy from Nature, the wonderful change The Douglas Proposals would make.

The Sahara Desert is a dry, barren, desolate tract of land covering some 3½ million square miles, upon which rain never falls. It is a wild, waste, wilderness. It is uninhabitable. Brazil has a similar area, and is situated much the same as regards latitude, both being within the tropics. But Brazil has an amazing rainfall, with the result that its productivity, its fertility, fruitfulness, fecundity, its riotous luxuriance of vegetable and animal life is almost omnific. Its generative force teems. It is inexhaustible. Why this supreme difference from the Sahara?

Simply because of its abundant rainfall. The rain withheld, Brazil would become a Sahara. It would

be absolutely sterile. But with rain poured forth copiously, the result is a cornucopia beyond measure.

The parallel holds good in the Australian economic sphere. Credit restricted, or withheld, or withdrawn, and the result is **Disease—Dearth—Destitution—Death!** Literally and metaphorically. Credit issued up to potential capacity on the Douglas principles, and the result is **Plenty—Prosperity—Abundance—**and **Leisure for All.**

The irrefutable fact is: that in a nation's workshop no less than in Nature's workshop, the biological law dominates. Those same principles which operated in the producing of the rock crystal out of primeval mud, in evolving wheat from the algae, in developing man from a speck of protoplasm, operate to-day in the industrial world. The ever-recurring forces of Consumption and Production, Depreciation and Appreciation of Old Values Destroyed and New Values Created—these always pulsating in rhythmic harmony, working out in a spiral, ever issuing forth in higher values.

Such is Nature's Law, and it abides in our economic life. These same forces run concurrent to Production, following precisely the same Law—that of the creative impulse—the line of continuity never broken.

Man being part of Nature, is impelled by the creative impulse to discover, to invent, to create, a quality purely of the spirit. That magic bowl—REAL CREDIT—is continuously replenished and fruitfully increased by the perennial inflow of the positive and dominant factors—Production, Appreciation, and New Values Created; and to draw upon its contents by that fertilising factor FINANCIAL CREDIT, is as natural a process as the Sun's drawing upon the waters of Mother Earth: the returning of the one being of an equal certitude as the return of the other; its irrigating influence beneficently fecundating industry, and like the clouds "whose paths drop fatness," bringing forth Abundance for Man.

NOTE.—May I urge all supporters of Social Credit and also those readers whose minds have responded sympathetically to the message of this little book, to do their level best to increase the sale and extend its circulation.

Some may buy a few copies and send to friends; others may sell copies, and all may talk about it and mention it in letters, thus, inducing others to buy and read it, and so give it publicity.

The field was never so well prepared for broadcasting the Social Credit Seed. The harrowing (to ravish, despoil, vex), it has had, has pulverised the refractory clods of prejudice, indifference, and inertia, and the soil is now receptive. Sow, my friends, sow, and the harvest is sure.

Appendix.

(A) THE JUST PRICE ASCERTAINABLE BY PRICE FORMULA.

The Just Price may be ascertained by finding the relation which actually exists between Total General Consumption and Total General Production of all kinds of goods and services over a unit period of time, say, three or six months.

The Douglas Mathematical Formula is as follows:—

Cost : Price : : Production : Consumption

$$\text{Therefore, Price} = \text{Cost X } \frac{\text{Financial Cost of Total Consumption}}{\text{Financial Cost of Total Production}}$$

and the quotient will give you the Just Price.

Total consumption includes Capital Depreciation and Exports.
Total Production includes Capital Appreciation and Imports.

In detail:—

(1) Total Production represents the sum total of ALL industrial activities and is valued at a Price based on Costs, say, 100.
(2) Total Consumption represents the Real Income of the individuals of the community, *i.e.*, the goods and services received to satisfy natural wants, and may be fitly termed Real Benefit. Such consumption or Real Benefit is measured by the purchasing power received as wages, salaries, and dividends, and paid away for goods and services. The amount of purchasing power thus distributed can buy only a portion of Total Production, say, 50.
(3) The Balance (since Production includes Imports, and Total Consumption includes Exports), represents an increase in Real Credit or communal wealth, and under the present system is paid for by bank-credits.

But the full price (100) is the Price charged for consumable goods, and the results are seen to be disastrous. Douglas proposes therefore, that:—

(1) The Price of goods and services to consumers shall represent only the Real Benefit received by them as individuals.

(2) The Balance now controlled by bank-credits; shall be covered by a draft on the financial credit (quite costless other than administrative costs), of the community as a whole.

The interpretation of this applied to the arbitrary figures given above would be:—

Total Production = Present Price = 100
Total Consumption = Real Benefit = 50

$$\text{The ratio of Real Benefit to Price} = \frac{50}{100} \text{ or } \frac{1}{2}$$

That is to say, the Price of Total Consumption, if regarded as Real Benefit, shall be one half of the Price of Total Production; and this ratio is called the Price Factor. In other words, if our financial system were based on our Real Credit, the Just Price of any article or of any service would bear to the cost of its production the same ratio as Total Depreciation of our communal Real Credit bore to Total Appreciation. (Appreciation to Depreciation by the way, might be as 10 is to 1, or as 20 is to 1).

The formula may be stated thus:—

$$\frac{\text{Just Price}}{\text{Cost Price}} = \frac{\text{Total Consumption of Real Credit (50)}}{\text{Total Production of Real Credit (100)}} = \text{Price Factor} = 1/2$$

A Government Industrial Balance Sheet showing on the

<u>Credit Side</u> and on the	**<u>Debit Side</u>**
Total General Production	Total General Consumption
" " Appreciation	" " Depreciation
" " Imports	" " Exports

might fitly represent the Douglas Proposals. On occasions when there is a gain, or "surplus," or "credit balance," such balance would effectively be distributed by a corresponding and general reduction of prices in accordance with the representative index figure, $\frac{\textbf{Consumption}}{\textbf{Production}}$ increasing to that extent the general purchasing power. On those occasions when there is a "deficit," or "loss," or "debit balance" (and this would occur only when Consumption exceeded Production in a period), the general purchasing power would be reduced or called in by the amount of the deficit through the means of a corresponding increase in Price.

(B) SOCIAL CREDIT.

The following are the three principles which must govern any reform of the financial system:—

1. That the sum of all cash credits possessed by the population of the country, shall at any moment be equal to the collective price of all consumable goods ready for sale in the country at that moment.
2. That the credits required to finance production, shall be new credits relating to new production, and they shall not be supplied out of savings.
3. That the distribution of cash credits to individuals shall be progressively less dependent on employment. That is to say, that the dividend shall progressively displace the wage and salary system.

Major Douglas's Proposals provide a method of administration which will give effect to these three principles simultaneously.

The Social Credit Movement exists to perform two functions:—

(a) To propound the principles, so that their soundness or otherwise may be decided by reference to ethical considerations.
(b) To explain the method so that its efficiency may be recognised by reference to technical considerations.

The two questions are distinct: (a) Is the policy good? (b) Is it feasible? The public, not the expert, has the right to answer the first; and the expert, not the public, is the competent authority to answer the second.

The Movement has for the past ten years vainly asked authoritative banking experts to give, in public, a reasoned technical pronouncement of the feasibility of the Social Credit Policy.

The Movement now asks the support of influential leaders of public opinion, who, while not necessarily guaranteeing the feasibility of Major Douglas's Proposals, will demand the required pronouncement.

(C) "PIECES OF PAPER."

"My friend, Sir Josiah Stamp, has helpfully called our attention to the fact that the **pieces of paper** which serve as bonds, bills of exchange, certificates of stock and notes, are not things of consequence in themselves. They are merely the **symbols** of something which is taking place. Their use reflect in some form or other human effort and the distribution of its produce. This great movement of **pieces of paper** amounts to nothing

except as it evidences a great interchange of goods and services."—Mr. Owen D. Young, author of "The Young Plan," *The New Age*, 18/10/30.

(Add the words "cheques" or "money" and this is pure Douglas philosophy).

(D) REDUCTION OF COSTS.

"Increased production at lower costs through rationalisation, scarcely seems to meet the needs of the moment. Even if production was raised to such a pitch that everything essential to the community would be supplied in sufficient quantities by a small group of workers, **the remainder must fall by the way, unless means were adopted to place purchasing power in their hands** . . . . Financial and political power has been in the hands of people who **know nothing of science, and it is they who should be arraigned at the bar of public justice for their failures."**—Sir R. Gregory, a distinguished scientist and editor of *Nature*, *Manchester Guardian Weekly*, 12/10/30.

(E) WHY NOT DO IT?

"We would like to see a body of men (engineers and scientists), assembled to advise the Federal Government on this question: 'On the hypothesis that Australia, by some natural cause, were to be completely cut off from communication with the outside world, to what extent could this emergency be met, assuming that **all the machines and man-power were employed to full capacity and all the products distributed.'** Ignore money and costs altogether, and consider the problem exclusively as one of applying available energy to the making and distributing of goods and services."—*The New Age*, 25/10/30.

"The Board further urges H.M. Government to take action on the monetary question without delay, and with **the guiding principle that the well-being of industry is of more vital importance to the people of the country than any financial consideration.**"—Memoranda from the Manchester Chamber of Commerce to the Prime Minister, *Manchester Guardian Weekly*, 19/10/80.

(Will Australian Chambers of Manufactures and Commerce please note and follow a good example?)

(F) RUSSIA.

The reference to Russia was written in August, 1930, based upon reports in *The Manchester Guardian* (Russia has no truer friend in the Press). **Then,** it was fair and accurate comment. **The Problem** facing the industrialised world is: How to distribute for use the consumable goods and services produced and producable; and that problem must present a technique to increase purchasing power, while at the same time reducing prices. Russia has no such technique, and neither has Marx.

Judging from my knowledge to-day gained from the same journal, I am inclined to think that she is painfully and slowly proving to herself and the world the truth of the Douglas axiom that: **Consumption is the Cost of Production.** Hence, by forced labour and a low standard of living, she is able to sell her products in foreign markets at their **Real Cost.**

But a "Work-State" cannot possibly be a technical solution in an **"Age of Abundance."** Besides true Communism is directly opposed to compulsion. It springs from within; it cannot be enforced from without.

(G) THE DOUGLAS SCHEME FOR SCOTLAND.

The following is Major Douglas's draft scheme of re-construction for Scotland on the lines of social credit policy:—

(1) Obtain from existing sources, such as company balance-sheets, land registration offices, and insurance companies, such information necessary to place a money valuation upon the whole of the capital assets of Scotland, such as land, roads, bridges, railways, canals, buildings, drainage and water schemes, power schemes, minerals, semi-manufactured materials. No distinction between public and private property. Replacement values to be used where the property is in use.

Add to this the sum representing the present commercial capitalised value of the population. Such a figure exists and varies with the actuarial expectation of life and the plant capacity of the country, and is something like £10,000 for a citizen of the United States at the age of 25. From the grand total thus obtained, a figure re-presenting the price value of the Scottish capital account could be obtained. Financial credit to an equivalent, amount can be created by any agency, such as a Scottish Treasury empowered by the Scottish people.

(2) As from the initiation of this scheme, the holding of any stock, share, or bond, by a holding company or trustee, will not be recognised. It is the intention that no shareholding in any industrial undertaking shall be other than in the form of equity shares of no par value, *i.e.*, Preference or Common shares or stock. Bonded indebtedness will be recognised for purposes of compensation where held by individuals, upon a proper investigation, but where held by corporations will be subject to such terms of redemption as may seem desirable.

No transfer of real estate directly between either persons or business undertakings will be recognised. Persons or business undertakings desiring to relinquish the control of real immovable estate will do so to the Government, which will take any necessary steps to re-allot it to suitable applicants. No Government Department shall administer, either directly or indirectly, any business, whether agricultural, productive, or distributive, other than the administration of the financial and credit schemes, or receive payment for any services rendered to the public, other than in bulk.

The Initial National Dividend.

(3) For the purpose of the initial stages, an arbitrary figure, such as one per cent. of the capital sum ascertained by the methods outlined in clause (1) shall be taken, and a notice published that every man, woman, and child of Scottish birth and approved length of residence, with the exception mentioned in the paragraph that follows, is to be entitled to share equally in the dividend thus obtained, which might be expected to exceed £300 per annum per family. It will be clearly understood that no interference with existing ownerships, so-called, is involved in such a proceeding. The dividend to be paid monthly by a draft on the Scottish Government credit, through the post office and not through the banks.

Any administrative change in the organisation of the post office should specifically exclude transfer of the money and postal order department and the savings bank. No payments of the national dividend will be made except to individuals, and such payments will not be made where the net income of the individual for personal use, from other sources is more than four times that receivable in respect of the national dividend. The national dividend will be tax-free in perpetuity, and will not be taken into consideration in making any returns for taxation purposes should such be required.

"Assisted Price" for Registered Businesses.

(4) Simultaneously with the publication of the foregoing notice, publish a figure to be known as the discount rate, to replace the existing bank discount rate, a suitable value of this for initial purposes being 25 per cent. It is important that the figure should not be less than 25 per cent., and it might very reasonably be higher.

(5) Simultaneously, publish an announcement that any or all business undertakings would be accepted for registration under an assisted price scheme. The conditions of such registration would be that their accounts, as at present required under the Companies Acts, should contain an additional item showing the average profit on turnover, and that their prices should, as far as practicable, be maintained at a figure to include such average profit, where this is agreed as equitable for the type of business concerned, the suitable profit being, of course, largely dependent on the velocity of turnover. Undertakings unable to show a profit after five years' operation to be struck off the register.

How Free Credits would be Issued.

(6) In consideration of the foregoing, all registered businesses would be authorised to issue with sales to ultimate consumers an account on suitable paper for use as explained in the following clause.

(7) Payment for goods would be made in the ordinary way, either by cheque or currency. The purchaser would, however, lodge his receipted account for goods bought with his bank in the same way that he now pays in cheques, and the discount percentage of the amount of such account would be re-credited to the consumer's, banking account. Unregistered firms would not be supplied with the necessary bill forms for treatment in this manner, with the result that their prices would inevitably be 25 per cent. at least, higher than those of registered firms. It is obvious that the larger the discount rate can be made the greater will be the handicap of the non-registered firms.

The total of the sums credited by the banks to private depositors in respect of these discounts would be re-imbursed to them by a Scottish Treasury credit. The capital account would be "depreciated" by such sums, and "appreciated" by all capital development. The existing banks would be empowered to charge an equitable sum for the services thus rendered.

Hours and Wages.

(8) The hours of Government offices to be reduced to four hours per day. To meet the temporary congestion of work, additional staff to be employed, such staff, however, doing identical work with the existing staff in the form of a second shift, and sharing with the existing staff the chances of promotion irrespective of seniority. The object of this is to discourage the well known bureaucratic tendency to enhance the importance of existing staffs by employing additional numbers of persons, ranking by virtue of seniority below the original officials, and, at the same time, to afford an opportunity of appointing a duplicate set of officials to check reaction without dislocation of existing routine.

(9) Wage rates in all organised industries to be reduced by 25 per cent. where such reduction does not involve a loss to the wage earner exceeding 20 per cent. of the sums received in the form of national dividend. The wage rates ruling in 1928 to be taken as the basis against which the reduction would be made.

Any trade union violating a wage agreement to render its membership liable to suspension of national dividend, and any employers' organisation committing a similar offence to be liable to suspension of price assistance.

Must accept Employment, or—

For a period of five years after the initiation of this scheme, failure on the part of any individual to accept employment in whatever trade, business, or vocation he was classified in the last census, under conditions recognised as suitable to that employment (unless exempted on a medical certificate), would render such individual liable to suspension of benefit in respect of the national dividend.

(10) Taxation of specific articles, or specific forms of property, to be abolished. Any taxation found to be necessary to take the form either of a flat non-graduated taxation of net income, or a percentage *ad valorem* tax upon sales, or both forms of taxation together.

(Sgd.) C. H. DOUGLAS.

Notes:—

The price level of 1928 has been taken for the rough estimate of the items which, when added together, make up the Real Assets or Real Capital account of Scotland.

The Financial Credit, which is equivalent to this, appears in a National Account as a contra-item. Money and Real Assets are on opposite sides of the account (and should balance), not, as in a commercial account, on the same side of the account.

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