"All that is necessary for the triumph of evil is that good men do nothing . . ." — EDMUND BURKE.

THE AUSTRALIAN LEAGUE OF RIGHTS

THE NEW TIMES SURVEY

Vol. 25 No. 11 November 2024

**IN THIS ISSUE**



## To Regulate or not to Regulate Retail Profit-Margins on Turnover? That is the Question! By M. Oliver Heydorn

Recent events and discussions with both Douglas Social Crediters and others have brought the profit-regulation condition that was sometimes presented by Douglas as being part and parcel of the compensated price mechanism discount into focus. While some, following Douglas' indications, have defended the profit-regulation mechanism as a necessary and/or important feature of the compensated price discount, others, including some seasoned Social Crediters, have objected to it as unnecessary and/or problematic for a variety of reasons. Rather than attempting to solve the problem or to resolve the dispute (which perhaps can only be properly decided definitively one way or the other by an empirical trial), I will aim to put the issue in context and to outline some of the main considerations both in favour and against the profit-regulation condition.

Before examining the profit-regulation condition itself, I want to make it clear that there are two different models that Douglas mentions in his writings for the compensated price discount mechanism. The most common form of the discount involved the retailer lowering his price by the discount percentage (established by the prevailing consumption/production ratio), selling at the discounted rate to the consumer (with or without the profit-regulation condition in play) and then being reimbursed (with debt-free credit) from the National Credit Authority to the amount he was out of pocket for the discount. So if something was selling for \$100 and the discount was 20%, the retailer would sell it to the consumer for \$80 and then the NCA would reimburse the retailer the 20 dollars he was out of pocket (this could be done in real time now with debit cards). The second form was to allow the retailer to sell at full price (again with or without the profit-regulation condition in play) and then for the NCA to reimburse the consumer to the extent of the discount. So if something was selling for 100 dollars and the discount was 20%, the consumer would pay the full 100 dollars and then the NCA would reimburse the consumer the 20 dollars (this could also be done in real time now with debit cards). There are some Social Crediters who prefer the second method to the first. I tend to prefer the first (for reasons that I won't go into now), but for me it is not an ideological question (nor would it be for Douglas). I'd be more than happy with doing whatever works best in practice.

The basic idea of the profit-regulation condition as part of the compensated price mechanism was as follows: retail firms (and retail firms ONLY – since the discount only applies to firms selling goods and services to the final consumer) would need to negotiate with the National Credit Authority and arrive at an agreed percentage as their fixed profit-margin on turnover if they wished to take advantage of the compensated price discount. Please note that there was to be no strict compulsion. Retail firms could set their profit-margins at whatever the wished if they opted out of the discount programme. They would then run the risk, however, of being significantly undersold by the competition who did elect to sign up for the discount. Also note that the profit-margin was to be freely negotiated between the retailer and the National Credit Authority on an industry per industry basis.
It was not to be unilaterally imposed by the NCA and was therefore intended to be equitable. The fact that it is to be negotiated (and could be renegotiated as time and conditions changed) may itself be regarded as an activity of the market between two economic players, in this case retail firms and the state regulatory authority (not the government of the day). Retailers would remain free to change their prices to accommodate changes in the costs of raw materials, labour, equipment, etc., as these change under prevailing market conditions. There were to be no price controls or price fixing. The discount only came into play after all of these free decisions to determine costs had been undertaken by the relevant players in the producers' market. The second thing that should be mentioned is that this proposal regarding the regulation of profit margins is not given that much attention in Douglas' writings. Whereas there is copious material on the subject of the National Dividend and the National Discount in general, this aspect of the discount mechanism is accorded very little space, perhaps a few sentences in 4 or 5 of Douglas' books, articles, or speeches. It often comes across as an afterthought or as more of a practical recommendation than a theoretical principle.

Take, for example, Douglas' discussion of the profit-regulation condition in his "Draft Scheme for Scotland":

> "(5) Simultaneously, an announcement to be published that any or all business undertakings will be accepted for registration under an assisted price scheme. The conditions of such registration will 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 shall, 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 turn-over). Undertakings unable to show a

profit after five years' operation to be struck off the register."[1]

Another attempt to articulate the condition can be found in Douglas' *Warning Democracy*, this time in reference to a variation of the compensated price discount scheme where it is the consumer rather than the retailer who is to be reimbursed to the extent of the discount:

> "Suppose that the large departmental stores, such as Messrs. Harrods, Messrs. Barker's, etc., were to agree, as they probably would, to restrict their net profit on turnover (not, be it noted, on capital) to 10 per cent. Imagine them to issue with each sale to an individual consumer, an ordinary statement of sale, commonly called a bill, and imagine arrangements to be made with the banks that these bills, when turned over by the individual consumer to the bank, should be credited at 25 per cent of their face value to the individual consumer's account to which they refer. Such an arrangement would amount in effect to a reduction of price to the consumer of 25 per cent, without any reduction in profit to either the producer or the retailer, and as the result of such an arrangement would be to increase effective demand, the turnover of both the retailer and the manufacturer would increase accordingly, and consequently their profit would increase. So that you will see that neither the retailer, the manufacturer, nor the consumer would, under such an arrangement, have any complaint to make. You will, of course, inquire where the bank will receive the necessary funds with which to credit the individual consumer with 25 per cent of his purchases. The answer to this is, that at stated intervals, of say one or three months, the banks would present an account of such credits to the Treasury, which would in turn pay to the banks a Treasury Draft equalling the amount, so that the banks would then be covered in the transaction."[2]

It nevertheless remains debatable how important profit-regulation on turnover is in Douglas' mind, whether it was intended only as a transitional feature (as a precautionary measure perhaps), or whether he thought it absolutely necessary in order to make the price discount work on a consistent basis. I say this because in many of his treatments of the compensated price discount, the profit-regulation condition is not even mentioned. In fact, it is probably left out many more times than it is mentioned.

The reason for the profit-regulation condition seems to be clear enough, however. Having been subject to a volley of objections over the decades that the Social Credit remedial proposals, namely the dividend and the discount, would be or could be inflationary, Douglas was keen to reassure the critics by eliminating any possibility of demand-pull inflation. The fear was that even if you carefully measured the gap and injected the compensatory debt-free credit at the appropriate intervals, retail firms that were best placed to do so could raise their prices to take advantage of the fact that there was more money in consumer pockets. This profiteering, besides raising prices, could then potentially cause gaps in other areas of the economy, which would then require an additional injection of even more dividend & discount credits … perhaps setting up a positive feedback loop that could only undo the integrity of the whole system and forcing a return to the present "debt-money" only paradigm. If debt-free credit was to be introduced into the economy and distributed to, or on behalf of, the consumer, it was of crucial importance that such injections actually increased the real purchasing power of the consuming public and did not provoke demand-pull inflation in any way, shape, or form. Putting a fixed profit margin in percentage terms on turnover would, in principle, help to ensure that the retailers who 'got their first' could not raise their prices to mop up increased consumer demand and that this demand would therefore be well-distributed throughout the economy and truly enhance the consumers' buying power. The profit-regulation condition was thus a practical application of a general principle which Douglas does enunciate in quite a few places:

> "It should be noticed that the control of credit issue and the regulation of prices are interdependent – you cannot tackle one of them alone."[3]

Elizabeth Holter in her 1937 book, *The ABC's of Social Credit* explains the primary rationale for the profit-regulation condition as follows:

> "The question of profits might conceivably ruin all the benefits to be derived from the application of the 'just price'. What is to prevent producers from raising their prices sky high and then using the discount purely to their own advantage? The answer is simply this – that producers wishing to avail themselves of the right to dispense the discount would have to agree to a fair but fixed profit on turn-over. To put it another way, using an hypothetical illustration – a producer will be offered a proposition such as the following: -
> 'If you will agree to continue to sell an article at $20 instead of raising the price to $25, by being eligible to dispense the discount you can offer that article to the consumer for $15, the sum of $5 being reimbursed to you through the National Credit Account.' Now though in some instances profits on individual sales would be less than they are today, the fact that the producer is enabled to sell his articles below cost, assures him of a far greater number of sales. In this way his increased turnover would more than compensate for any decrease of profit on individual sales. If he rejects this offer and sells a portion of his goods at whatever price they will fetch, he runs the risk of having a large portion of his goods remaining for they will be in competition with goods benefitting by the discount. Here it must be observed that there is no compulsion involved. The producer makes his own choice."[4]

Now, before we go on to consider some of the putative advantages and disadvantages of the profit-regulation condition, alongside some possible alternative solutions for dealing with the same problem, i.e., the threat of demand-pull inflation, I think it is fair to state that Douglas' proposal should also be regarded as a "last resort" or as something which would only be applied if it were absolutely necessary and there were no other, more effective means available for neutralizing inflation. In other words, basing ourselves on Douglas Social Credit philosophy and policy, it should be easy to extrapolate that those methods which, provided they are sufficiently effective, prevent demand-pull inflation within the context of a compensatory consumer credit economic model but involve the least amount of state or regulatory intervention, and are therefore the least disruptive to the market, are to be preferred by the Social Crediter as a matter of principle whenever possible.

The most obvious advantage of the profit-regulation condition is that it would prevent the DSC compensatory measures from inducing demand-pull inflation, thus safeguarding the integrity of the system. To this claim it has been countered that firms could nevertheless cheat, *via* creative accounting, etc., and overstate their costs, thus profiteering while officially maintaining their profit-margins at the agreed percentage.[5] One would think normal competitive forces would discourage this, but if a small number of firms colluded and formed a price ring this could indeed become a problem. It would then be necessary for the National Credit Authority to conduct periodic auditing or spot auditing of suspicious firms. Those firms who were caught cheating would be struck off the list of firms enjoying the discount and would likewise be subject to public opprobrium. One would also think that such public shaming and the consequent economic penalties (having to sell at a decidedly non-competitive price) would be powerful incentives for firms not to cheat in the first place.

There are another two putative advantages that I can think of: a profit-regulation mechanism could, *ex hypothesi*, eliminate monopoly and oligopoly profits which tend to undermine the benefits which we associate with free markets generally, but which are really only features of the perfectly competitive market: physical efficiency, capitalist justice, and a maximization of consumer choice. In perfectly competitive markets, profit-margins tend naturally to their lowest feasible levels, where they maintain the incentive to produce but don't allow for profiteering. Ironically, profit-regulation would also allow the National Credit Authority to ensure a better deal for firms in industries where, under current conditions, profits have been driven to insanely low levels. In North America, for example, it is not uncommon for groceries and supermarkets to have profit-margins as low as 1-2%.
A National Credit Authority could say: considering the fundamental contribution the supermarket industry makes to the common good, why don't we set profit margins at 5% instead? They would be better off and the NCA would always been in a position to ensure that consumers could cover the increases in profit-margins *vis-à-vis* current margins. Indeed, if the compensated price discount allows companies to sell more than they do at present (which it would) they would even be better off under existing profit-margins, even when these are abominably low. Perhaps, in exchange for the contribution that the discount would make to their aggregate profits, agreeing to a fixed profit-margin on turnover would be a small thing to ask from companies that had so benefitted from the discount programme.

Now, when it comes to the putative disadvantages, one of chief criticisms of the profit-regulation condition is that it may interfere too greatly with micro-economic price signally. This could, in turn, interfere with efficiency, innovation, and investment by disincentivizing them. According to neo-classical theory, when a firm's goods or services are in high demand, they can raise their prices and make windfall profits, but this serves as an incentive for other firms to enter the market so they can get a piece of the action. As these other firms increase supply, prices and profits tend to go down again. Firms would not be able to do this under a profit-regulation condition. They could, however, respond to increases in demand by increasing the quantity or volume of what they sell (assuming it is possible to do so) and increasing their aggregate profits that way. This, in turn, could still provide a signal to other firms to enter the market, or, if they are already in the market, to likewise increase their turnover to "get in on the action".

In other words, under the profit-regulation condition competition would continue because it is still incentivized. It is just that there is a volume-based incentive as opposed to a windfall profit-based incentive. Let's say that the discount is set at a certain percentage, so that if A sells his widgets for $10 and the discount is 20%. He sells to the public at $8. But if B can undersell him, because B is more efficient, B can sell his widgets for $6.4 (20% discount on $8 being $1.6). Consumers will generally prefer B's product (all other things being equal) because it is cheaper, thus forcing A to become more efficient in order to compete with B (if he can) because he who sells more makes more profit. Investment decisions then follow. If B is more successful than A, B will have an incentive to expand his business as his aggregate profits will be correspondingly greater, while A will be loath to invest if he cannot hold his own in the market.

Would this volume or quantity incentive be sufficient to move the market in the direction it needs to go if it is to serve the consumer optimally? Would it function as well as the windfall profit incentive? That remains to be seen. If it did interfere with efficiency, innovation, and investment, how great would that interference be? How much would it matter?

Apart from any question of theory, it should be pointed out that when the Curtin government in Australia (having been influenced by Douglas Social Credit theory) introduced a compensated price discount on certain key consumer items during the 2nd World War in order to deal with the inflation that the war had induced, there was a profit-regulation condition in place. Whatever unintended effects there may or may not have been, the price discount mechanism did indeed stop inflation. Unfortunately, the programme was financed within the context of the existing financial orthodoxy (debt & taxes) and was wound up after the end of the war. The programme is described in Vol. 37 of the *Australian Yearbook,* starting on page 458:

***https://www.ausstats.abs.gov.au/ausstats/free.nsf/0/4030A3460E588633CA2573AD00200501/$File/13010_1946-47%20section%2012.pdf***

The profit-regulation condition is described as follows on page 459:

> "An important change in the methods of price control was introduced in April, 1942, by the issue of Prices Regulation Order No. 666 which limited the trader's profit margin to the actual money margin obtaining on 15th April, 1942. From that date onwards the trader was allowed to increase his prices only by the actual amount of increased cost. Increases in money margins of profit were permitted only with special approval. This new principle was adopted because of the inflationary effects of increasing costs, increasing turnover and percentage profit margins on [a] pre-war basis."

It would be most instructive to investigate whether and to what degree this profit-regulation condition interfered with efficiency, innovation, or investment decisions, etc., in the Australian case. As Douglas stressed repeatedly, facts trump any and all theories:

> "[I]n certain lines of activity, instead of its being possible to set up a theory, and say that theory is a good theory, and is eternal, we have got into the habit of mind in certain spheres of activity of saying any fact is a good fact .... but any theory against which anybody can bring a fact which will not fit into it, is a bad theory and should be discarded."[6]

This "inductive" approach that privileges facts over theories is the correct epistemological and methodological approach in every area of inquiry.

A second significant objection, best articulated by Jim Schroeder (who is a seasoned Social Crediter), is that the profit-regulation condition is not actually necessary and that the danger of demand pull inflation is rather less than Douglas imagined. If, for example, we introduce the consumer re-imbursement model of the compensated price discount with no profit-margin regulation condition in play, retailers would set their prices as they do now. All micro-economic signally is thereby preserved. All incentives are likewise preserved as they operate at present. In order to get a sale, or increase the likelihood of sales, companies would have to undersell competitors, just as they do now. The consumer, even though he will get a rebate on every dollar spent, will still want to buy what he needs at the cheapest available price (all other things being equal) so that he can make his money go as far as possible. The retailer doesn't get any money directly from the regulatory agency on this model, so he is not incentivized to jack up his prices artificially to try to take advantage of the consumer.

This can be contrasted with what might happen under the model where the retailer is reimbursed and there is no profit-regulation condition in play. In that model the retailer may try to rig this system in his favour and at the expense, therefore, of the consumer. He could do this by raising his prices (via increased) profit-margins to a level that makes it look like the consumer is still getting a great deal. Let's say the retailer needs to sell an item at 90 dollars to cover costs and to make the minimum needed in profit. He knows that the discount is at 20%. He therefore sells as 100 (because the market can bear it) and pockets the additional 10 dollars, while selling the item to the consumer at $80. The price, however, should be $72 (20% discount on $90 being $18). The consumer has lost $8 from his wages or National Dividend that he could have spent elsewhere, thus reducing his purchasing power. The extra profit that the retailer has made has come from an increase in prices. This is demand-pull inflation; prices will be higher than they should be because there is more money about.

Now, if competition under the consumer-reimbursement model without a profit-regulation condition can indeed do the job effectively, efficiently, fairly, etc., and regulate prices so that the increased flow of compensatory consumer credits does not result in demand-pull inflation, then that is all to the good and I believe that even Douglas himself would prefer the self-regulation of the market to the state regulation that the profit-margin condition would necessitate. But this raises questions regarding oligopoly or monopoly markets that are imperfectly competitive and where collusion, for example, could conceivably result in the formation of price rings. Perhaps sufficiently robust anti-trust legislation would have to be devised and duly enforced in tandem with this solution to the problem in order to ensure that there would be enough competition to maintain a non-inflationary equilibrium between prices and consumer buying power. On the other hand, perhaps, as Arindam Basu has argued in recent email correspondence this not a significant concern under the changed conditions that Douglas Social Credit would introduce:

> "I'm inclined to think that cartels tend to form when companies fear for their survival in an environment of decreasing demand and/or rising costs - in other words, a situation completely opposite to one that a National Dividend and National Discount would create."[7]

Another advantage of jettisoning the profit-regulation condition which Jim points out (assuming it can be jettisoned without causing inflation), is this: whereas the profit-regulation mechanism may be unnecessarily bureaucratic and cumbersome, necessitating annual reviews of the agreed profit-margin and a bevy of accountants and auditors to monitor profit margins, check for possible cheating, etc., operating without the profit-regulation in play would make things much simpler, more efficient, and cheaper. To this, it might be countered that the present income tax system is undoubtedly far more complicated and time-consuming an operation than any profit-regulation system would be and yet it remains in constant operation. But there is also the question of what constitutes an industry and how that would be determined for profit-regulation purposes. Profit-margins on that model are supposed to be set on an industry to industry basis. That may seem easy to determine in principle, but with companies selling outside of their traditional markets it can get complicated. An example Jim gives is this:

> "Sobeys, Safeway, Superstore and Walmart all sell groceries. Are they in the same 'industry'? Walmart and Superstore also sell clothes, TVs etc...should the margins on bread be the same as the margin on TV's? Even within the same industry, should the margin on bread be the same as the margin on deli meat or juice?"[8]

In any case, if competition is not sufficient to prevent demand-pull inflation, and the profit-regulation condition is not employed, there is another alternative also suggested by Arindam Basu: the progressive taxation of profit margins. Quoting again from private correspondence:

> "If the government wanted to ensure that producer rebates were passed onto customers and not turned into additional profits, it could combine the rebate with a progressive corporate tax. The latter would essentially look at the average rate of profit (say 20%), and dictate that profits above that percentage would be taxed at increasingly higher rates (50% plus). This would reduce (possibly eliminate completely if the tax rate is 100% or even more) the possibility of rebates being used to boost profits instead of being passed on to consumers."[9]

Arindam goes on to note, however, that this alternative is also not philosophically or aesthetical ideal because it conflicts with the spirit, the philosophy/policy of Douglas Social Credit:

> "That said, aside from the problems that arise with using the private sector to pursue government policies, I think this approach is against the spirit of Social Credit, which is, after all, the policy of freedom - and I would say, that this entails the freedom not simply of individuals, but also of enterprises."[10]
>
> At the end of the day, the best advice to follow as a guiding principle in the confrontation between the application of theory and the real world is also provided by Douglas: "That is moral which works best."[11] ***

References:

[1] C.H. Douglas, *Major C.H. Douglas Speaks* (Sydney: Douglas Social Credit Association, 1933), 96.

[2] C.H. Douglas, Warning Democracy, 3rd ed. (London: Stanley Nott, 1935), 105-106.

[3] C.H. Douglas, *These Present Discontents and The Labour Party and Social Credit* (London: Cecil Palmer, 1922), 15. See also C.H. Douglas, *Warning Democracy*, 3rd ed. (London: Stanley Nott, 1935), 185: "[A] properly co-ordinated system of credit issue and price regulation, which will in effect place the point of issue of purchasing power with the consumer, from whom fundamentally it arises, and to whom in essence it belongs, is the only solution to the difficulty, ...."

[4] E.S. Holter, *The A.B.C. of Social Credit* (Vancouver: The Institute of Economic Democracy, 1978), 36-37.

[5] Personal correspondence with Arindam Basu.

[6] C.H. Douglas, "Major Douglas at Dunedin" *The Social Credit Standard*, No. 9 (July-August, 1934), 1-2. Along the same lines: "It is very much better that philosophies should follow facts than that facts should be constrained in accordance with philosophies." C.H. Douglas, *Warning Democracy*, 3rd ed. (London: Stanley Nott, 1931), 201.

[7] Private correspondence with Arindam Basu.

[8] Personal correspondence with Jim Schroeder

[9] Arindam Basu continues: "Indeed, such progressive corporate taxation can also be used to nip any price-gouging in the bud…. However, we should bear in mind that, as John Kenneth Galbraith noted, modern economies tend to be characterised by price stability - a firm is more likely to respond to increased demand by raising output than by putting up prices, not only because it does not want to alienate consumers and lose market share, but also because changing prices can be time-consuming and involve extra work on the part of various departments like marketing, sales, accountancy, etc…. Who needs all the hassle?"

[10] Private correspondence with Arindam Basu.

[11] C.H. Douglas, *Credit-Power and Democracy* (Melbourne: The Social Credit Press, 1933), vii.

**Annual Subscription to *'On Target'* $75.00 pa which includes an Insert, the On Target and the NewTimes Survey journals - printed and posted monthly.**
**Donations & Subscriptions can both be performed by Direct Bank Transfer to:**
**A/c Title Australian League of Rights (SA Branch)**
**BSB 105-044**
**A/c No. 188-040-840**
**Postal Address: PO Box 27, Happy Valley, SA 5159.**
**Telephone: 08 8322 8923 eMail: hub@alor.org**
**Online Bookstore : https://veritasbooks.com.au/**
**Our main website of the Douglas Social Credit and the Freedom Movement "Archives" :: https://alor.org/**
**On Target is printed and authorised by Arnis J. Luks**
**13 Carsten Court, Happy Valley, SA.**