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**FOR POLITICAL AND ECONOMIC REALISM**

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## The Labour Party and Social Credit

### Preface

The following article, published in 1922, displays the late C.H. Douglas's profound grasp of both economic and political realities. In regard to the former, the criticism of the Labour Party was fairly obvious. In regard to the latter, it has become obvious that all major political parties in all the so-called democracies have embraced the basic fallacies, exposed by Douglas so long ago, as foundations for their basic 'platforms'. Their basic policies derive from the desire to exercise *power* to govern, and power derives from centralisation of economic control of the community. Their differences are displayed only in charges of mismanagement by their opponents. The industrial system is seen as a mechanism of government, *via* a plethora of Regulations which operate on the individuals of the community, and not as a wondrous development leading to increasing leisure and increasing economic emancipation.

The common factor is that in our complex industrial societies politicians are virtually in the hands of advisers, who are increasingly the products of socialist-orientated training institutions stemming from the London School of Economics, and spreading by metastasis (the mode of spread of generalised cancer) into schools at all levels, and universities and institutes of advanced education throughout the world.

The result of all this is that we have been brought to a condition of almost irreversible slavery. And until massive pressure is put on Parliamentary Representatives to demand that Governments give *priority* to ensuring that all individuals are adequately sheltered, fed and clothed, slavery will be enforced. In countries like Australia, which visibly have the resources *in excess* to provide basic requirements for all, and reserves of essential raw materials to exchange for such imports as are needed to make the whole community prosperous, persistence in present policies of economic "management" should be regarded and treated as a crime, and 'representatives' who support such governments pilloried and pressured. "Political democracy without economic democracy is dynamite" — as evidenced by poverty, war, and revolutionary violence — all leading to One World Government enforced by One World Police.

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### Major Douglas's "The Labour Party and Social Credit"

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

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

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

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

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

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

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

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

This is, I think a deductive proof of the theorem to which the Labour Party's Report takes exception, and on which exception the technical portion of the Report is based. But, of course, by far the most important proof is the demonstration given since 1921 of the result of restriction of credit. If wages, salaries and dividends would buy the product, and when recovered in prices would pay for product to replace it, then why did an avalanche of bankruptcy, unemployment, and semi-starvation follow the restriction of credits in 1920-1921? And how is it that in spite of most unscientific and very probably wilfully unscientific, methods of inflation, Germany has suffered none of these things, and is in fact *economically* far stronger than at any time in her history? The Committee, however, do not appear to have noticed these events.

So much for the main destructive criticism of the Report.

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

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

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

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

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

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

(a) That recommendation was not accepted.
(b) The opinion was disregarded.
(c) A Committee was appointed with which in all probability the Scottish Labour Advisory Council would not have been satisfied had it been asked for an opinion.
(d) That Committee from its constitution could not logically submit any other description of report than that which it did in fact submit.

## II.

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

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

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

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

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

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

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

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

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

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

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

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

## III.

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

About March of this year 1922, it became evident that a fresh crisis in the Mining Industry was approaching, concurrently with a steady growth of interest in the relation of credit to industrial problems. Mr. Sidney Webb was elected Chairman of the Labour Party Conference, which devoted itself to the devastating problem of Privy Councillorships for Labour Leaders. Discussion of Finance was successfully excluded from that Conference.

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

*Albert Emil Davies (see *Who's Who*) as has since been disclosed —Editor, *T.S.C.*

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

article successfully avoided any mention or indication of the Social Credit Proposals.

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

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

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

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

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

## APPENDIX

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

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

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

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

(2) That banks and bankers cannot and do not create financial credit. (Mr. Gregory, "Sir

*Albert Emil Davies—*Editor, T.S.C.*

Ernest Cassel," Reader in Economics, London School of Economics, has twice, at least, made this statement in public.)

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

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

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

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

The premises of the Social Credit Movement are:—

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

(2) That banks and bankers can and do create financial credit, and by successful manipulation appropriate the power resident in the real credit of the community for purposes largely anti-social, as well as purely selfish.

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

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

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

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

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

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

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

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

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

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

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

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

Page 4, final para.:

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

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

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

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

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

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

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

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

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

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

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

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

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

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For reasons of space, correspondence which constituted a second Appendix has been omitted. This correspondence, between Major C.H. Douglas and Mr. A.R. Orage (jointly) and the Labour Party concerned the terms of reference and the personnel of the Committee.

"A practical scheme for the establishment of Economic and Industrial Democracy, (the Mining Scheme)" is included as an Appendix in *Credit Power and Democracy,* by C.H. Douglas.

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